BUFFALO FISCAL STABILITY AUTHORITY

Annual Report of the Buffalo Fiscal Stability Authority
Fiscal Year Ended June 30, 2016

September 21, 2016

Buffalo Fiscal Stability Authority
Authority Directors and Staff as of June 30, 2016

Directors

R. Nils Olsen, Jr., Chair

Richard T. Jurasek, Interim Vice-Chair

George K. Arthur, Secretary

Frederick G. Floss

Dottie E. Gallagher-Cohen

Frank B. Mesiah

Byron W. Brown (ex officio)

Mark C. Poloncarz (ex officio)

Vacant

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Jeanette M. Robe, CPA
Executive Director

Nikita M. Fortune, BA
Administrative Assistant

Bryce E. Link, MPA
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Annual Report of the Buffalo Fiscal Stability Authority

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Introduction

This annual report summarizes the actions, accomplishments and progress of the Buffalo Fiscal Stability Authority (the "BFSA") since its inception in 2003. This is the thirteenth such annual report with the focus of this report on the period from July 1, 2015 through June 30, 2016, and complements the information reported in prior annual reports. Since 2003, the City of Buffalo (the "City") and its non-exempt covered organizations, including the Buffalo City School District, the Buffalo Urban Renewal Agency, the Buffalo Municipal Housing Authority, and the Joint Schools Construction Board (collectively, the "Covered Organizations"), have operated under the requirements of the Buffalo Fiscal Stability Authority Act.

The information as presented within this annual report is historical in nature and is not intended to project the BFSA's expectations of future events. Please note that within the section titled "BFSA Reports on the 2016-17 Budgets and 2017-2020 Financial Plans of the City of Buffalo and the Covered Organizations," information related to future projections over the next four fiscal years as made by management of the City and Covered Organizations are discussed.

Since the BFSA was created in 2003, the financial impact from the BFSA's actions on the City of Buffalo and its Covered Organizations has totaled approximately $455.2 million. Of this amount, $238.8 million is attributed directly to savings achieved through the wage freeze which was implemented in April 2004 and lifted on July 1, 2007, and continues to generate annual savings. The financial impact and related savings were created through the exercise of extraordinary powers granted to the BFSA by New York State (the "State"), and through the cooperation of the City of Buffalo and its Covered Organizations. For details of the BFSA's actions and related savings, please see Tables 1-3 beginning on page 30 of this report.

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

In May 2003, the State declared a state of fiscal crisis with respect to the City as a result of a State Comptroller's report on the City of Buffalo's financial condition and a subsequent determination by the State Legislature (the "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 City budget a matter of "overwhelming State concern", on July 3, 2003, the Governor signed into law Chapter 122 of the Laws of 2003 of the State, as amended from time to time (the "BFSA Act"), creating the BFSA. The BFSA is a corporate governmental agency and instrumentality of the State constituting a public benefit corporation with a broad range of financial control and oversight powers over the City.

As per the BFSA Act, and subsequent resolution by the BFSA, the City is understood to include certain non-exempt Covered Organizations, as defined above.

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 the Covered Organizations;

- Required the annual development of a four-year financial plan for the City and Covered Organizations, and vested the BFSA with the power to ensure compliance with that plan;

- Granted the BFSA the power to provide deficit financing assistance to the City over a four-year period beginning in 2003-04 and for the subsequent three fiscal years, 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 there with.

The BFSA Act provides that the BFSA 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.

Under the BFSA Act, the BFSA began its existence during a control period, meaning that the BFSA commenced operations 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 financial condition of the City and the Covered Organizations. Among them are the powers to: (i) review and 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 the City or 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.

During an advisory period, BFSA is empowered, among other things to: (i) review the operation, management, efficiency and productivity of City operations and of any Covered Organization's operations, and to make reports and recommendations thereon; (ii) to review and comment on the budget, financial plan and financial plan modifications of the City and any Covered Organization; (iii) to audit compliance with the City and any of the Covered Organization's financial plans; (iv) 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; (v) to assess the impact of any collective bargaining agreement to be entered into by the City or any Covered Organization; (vi) to certify revenues included in the financial plan; and (vii) to re-impose a control period if the BFSA determines at any time that a fiscal crisis is imminent or if the City meets certain statutorily defined conditions. Such statutorily defined conditions include the following: (a) the City shall have failed to adopt a balanced budget, financial plan or budget modification as required by the BFSA Act; (b) the City shall have failed to pay the principal of or interest of any of its bonds or notes when due; (c) the City or the Buffalo City School District shall have incurred an operating deficit of one percent or more in the aggregate results of operations of any major fund during its fiscal year assuming all revenues and expenditures are reported in accordance with generally accepted accounting principles, subject to the provisions of the BFSA Act; (d) the chief fiscal officer's certification at any time, at the request of the BFSA or on the chief fiscal officer's initiative, which certification shall be made from time to time as promptly as circumstances warrant and reported to the BFSA, that on the basis of facts existing at such time such officer could not make the certification described in subdivision one of Section 3851 of the BFSA Act; or (e) the City shall have violated any provision of the BFSA Act. During an advisory period the BFSA must also make a determination as to whether or not the financial plan is complete and compliant with the BFSA Act. In the event a financial plan is found not to be complete and compliant, a revised financial plan is required to be submitted in accordance with the instructions of the BFSA. In the event that the revised financial plan continues to be found incomplete and non-compliant, the BFSA shall provide notice to the City and various State Officials as required by the BFSA Act.

Mission Statement

The BFSA'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."

BFSA Governance and Administration

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. As of June 30, 2016, there was one vacancy on the Board of Directors and as of the date of this report that vacancy remains. Several of the Directors terms have expired, however the Directors are still serving beyond the expiration date until a new Director is named to replace them.

As of June 30, 2016, the following individuals served on BFSA's Board of Directors:

- **R. Nils Olsen, Jr., Chair**
  Former Dean (from 1998 to 2007) and retired Professor of Law of the University at Buffalo Law School

- **Richard T. Jurasek, Ph.D., Interim Vice-Chair**
  Former President of Medaille College

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

- **Dottie E. Gallagher-Cohen**
  President and CEO of the Buffalo Niagara Partnership

- **Frederick G. Floss, Ph.D.**
  Professor of Economics and Finance and Co-Director of Center for Economic Education, Buffalo State College, former Executive Director of the Fiscal Policy Institute, and former Vice President for Academics with United University Professions

- **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 Chair Olsen with Director Floss and Director Mesiah constituting the remaining committee members.

The second committee is the Governance Committee and is chaired by Chair Olsen with Secretary Arthur and Interim Vice-Chair Jurasek constituting the remaining members of the committee.

At June 30, 2016, BFSA had the following staff members:

- **Jeanette M. Robe, CPA (Executive Director)**
  Former Deputy Comptroller with the City of Buffalo and former Senior Manager with Deloitte and Touche LLP, Buffalo, New York

- **Nikita M. Fortune, B.A. (Administrative Assistant)**
  Former Safe Routes to School Coordinator for GoBike Buffalo and former Common Council Deputy Chief of Staff

- **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. (Senior Analyst/ Manager of Technology)**
  Former BFSA Financial Analyst, Executive Assistant/Office Manager

- **Robert L. Miller, CPA (Comptroller)**
  Former Chief Financial Officer with CVF Technologies Corporation and former Vice President/Controller with Pratt & Lambert United, Inc.

Summary of Accomplishments in 2015-16

During 2015-16, the BFSA continued to provide fiscal oversight over the City and the Covered Organizations. As previously noted the BFSA is operating under an advisory period and, as such, provides assistance largely through recommendations as opposed to direct actions.

The BFSA held seven board meetings during 2015-16; in addition the BFSA held three Audit, Finance and Budget Committee meetings and three Governance Committee meetings. During such meetings, the BFSA approved several reports with recommendations to the City and Covered Organizations, which are summarized within this section. Additionally, the BFSA held numerous discussions concerning specifically the Buffalo Municipal Housing Authority (the "BMHA") and the Buffalo City School District (the "District"). Additional information related to these discussions are summarized within this section.

This was the fourth year the BFSA operated under an advisory period; prior to July 1, 2012, the BFSA had operated for nine consecutive years within a control period. The City and the Covered Organizations continue to benefit from savings resulting from actions the BFSA took during the nine-year control period. A summary of the cumulative impact of such BFSA actions is included on page 30.

Progress Towards Fiscal Stability

In 2003, the BFSA was created as a result of the City of Buffalo facing a severe financial crisis. The City had utilized 92% of the maximum legal real property tax levy, had bond ratings one level above "non-investment" grade, was at risk of losing access to the credit markets, and was facing a structural budget imbalance. Since 2003, the City has made progress towards fiscal stability, although it is noted that the City and Covered Organizations continue to face financial challenges, some significant. These challenges are discussed in detail within this report and are included in the individual reports within the section titled "BFSA Reports on the 2016-17 Budgets and 2017-2020 Financial Plans of the City of Buffalo and the Covered Organizations" beginning on page 34.

Certain key indicators of the fiscal progress of the City and the District include the following:

- The City's fund balance has increased since creation of the BFSA. At July 1, 2003, the City's total fund balance was $36.0 million and unreserved, undesignated/unassigned fund balance was $8.3 million. As of June 30, 2015, the City's total fund balance was $151.2 million, and unassigned fund balance was $43.4 million. In addition, in 2007 the City established a Rainy Day Fund, which is included in the balance for total fund balance and can be utilized during unforeseen fiscal emergencies. The increase in fund balance and establishment of the Rainy Day Fund are two indicators of the strengthening in the City's financial position.

It is further noted that from July 1, 2003 to June 30, 2010, total fund balance steadily increased. Beginning with fiscal year (FY) 2011, the City reported a deficit. The two year deficit for FY 2011 and FY 2012 was $29.1 million. The City reported a surplus in FY 2013 and fund balance had increased to $165.8 million, an increase of $52.2 million on a year-to-year basis; the surplus was largely due to one-time, non-recurring revenues. For the year ended June 30, 2014, the City reported a deficit of $19.4 million and fund balance had decreased to $146.4 million. For the year June 30, 2015, which is the last fiscal year reported on, the City recorded a surplus and an increase of $4.8 million on a year-to-year basis; the surplus was again due to a one-time, non-recurring revenues. Combined, fund balance increased $8.5 million over the five-year period from FY 2011 to FY 2015.

The 2017-2020 Financial Plan includes the substantial use of unassigned fund balance ($30.7 million of $43.4 million, or 71 percent of available unassigned fund balance) over the course of the four years, which is demonstrative of budgetary pressures facing the City.

- 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 is established at 30 days of General Fund expenditures. At June 30, 2015, the amount of this fund was $37.2 million, a decrease of $500,000 from the prior year. The decrease is attributed to the decrease in actual total expenditures from FY 2014 to FY 2015. The Rainy Day Fund is maintained throughout the financial plan.

- The District's fund balance at June 30, 2003 totaled $33.5 million. Unreserved, undesignated/unassigned fund balance totaled $4.6 million, which represented 1.1% of actual FY 2002-03 expenditures. The BFSA reported that this was a significant threat to the District and was symptomatic of the financial crisis.

  The District's fund balance position has substantially improved since 2003. Total fund balance peaked at $235.7 million at June 30, 2011, but was reduced to $191.1 million at June 30, 2015, due to four consecutive fiscal years with deficits; the deficit for the year ended June 30, 2015 was $2.7 million. Unassigned fund balance at June 30, 2015 totaled $52.1 million representing 6.6% of actual FY 2014-15 expenditures. The remaining $139.0 million is comprised of non-spendable/restricted fund balance of $25.3 million, and assigned fund balance of $113.6 million. Assigned fund balance represents funds set aside for management's intended purposes and includes amounts set-aside for the subsequent year's budget and capital needs ($8.4 million and $7.2 million respectively), other postemployment benefits ($38.4 million), encumbrances ($2.9 million) and prior years' claims ($56.7 million). The amount set-aside for prior years' claims of $56.7 million is reserved for settling expired collective bargaining agreements.

- In 2003, the City had utilized 92% of the City's available Constitutional Taxing Limit, which provided for a remaining tax levying margin of $12.5 million. This amount was considered to be dangerously low and without intervention and relief the City could have potentially fully utilized the available balance for the maintenance of services. Since 2003, the City has been able to decrease the proportion used of the Constitutional Taxing

Limit and increase the available tax margin. As included within the 2016-17 Adopted Budget, the City is utilizing 66% of the available Constitutional Taxing Limit and has a remaining taxing margin of $50.3 million.

- The City's bond ratings have increased from Baa/BBB- to A1/A+ from Moody's Investors Service and Standards and Poor's Rating Services, respectively. Fitch Ratings ("Fitch") has rated the City's bond obligations at A+ since 2010, which was the initial year that Fitch rated the City. Additional background related to the City's bond ratings is located in the "Providing a More Cost-Effective Financing Framework" on page 19.

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 the fiscal stability of the City and the Covered Organizations. 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. The Mayor is required to submit the annual four-year financial plan to the BFSA by May 1 of each year; the financial plan is to include the City and Covered Organizations.

During 2015-16, the BFSA monitored implementation of the 2016-2019 Financial Plan of the City and its non-exempt Covered Organizations. The 2016-2019 Financial Plan included the adopted annual budgets for the City and the Covered Organizations, as required, along with financial projections for the subsequent three fiscal years. There were three Financial Plan modifications submitted to BFSA during the year; all modifications impacted only the 2015-16 FY with no impact to the out-years of the respective Financial Plans.

The first two modifications were submitted by the District; the first one recognized additional grant revenues and corresponding expenditures for the use of the grant funds, while the second modification provided additional resources for expanded nursing services at schools. The third modification submission was made by the Buffalo Municipal Housing Authority (the "BMHA") and was reflective of increased estimated revenues of $0.9 million and an increase to budgeted appropriations of $2.1 million. Neither the City nor the Buffalo Urban Renewal Agency ("BURA") submitted any budget or financial plan modifications during 2015-16 FY. All modifications are discussed in the section subtitled "Monitoring Fiscal Health."

On April 29, 2016, the City submitted the 2017-2020 Financial Plan to the BFSA which included the financial plans of the City and Covered Organizations, as required. The City's Financial Plan included a total projected baseline deficit of $30.7 million. The City was able to address the deficit by including the use of $30.7 million of unassigned fund balance. The 2016-17 budget gap is $10.7 million which is filled through unassigned fund balance. The projected gap for the remaining three years is a cumulative $20.0 million and is closed through the use of fund balance.

As previously noted, the District has been faced with a structural imbalance over the last several years with annual deficits occurring annually since 2012 and a resulting cumulative reduction to fund balance of $44.7 million. A $5.5 million deficit has been conservatively projected by the

District for the fiscal year ending June 30, 2016. A deficit has been budgeted for within the FY 2016-17 Adopted Budget (the "Adopted Budget"). The District's Financial Plan includes $3,486.9 million in estimated revenues and $3,510.2 in budgeted appropriations with a resulting budgetary gap of $23.3 million. The District has projected to use $18.3 of fund balance, leaving a total remaining budgetary gap of $5.0 million to be filled through various actions or items, otherwise known as Programs to Eliminate the Gap ("PEG Plan"). The District's 2016-17 budgeted deficit of $4.9 million is fully funded with the use of fund balance.

It is noted the District has retained an amount of unassigned fund balance over the Financial Plan which is compliant with the District's fund balance policy to retain a minimum of 4% of total expenditures.

The BFSA determined that certain of the potential actions to be taken by the District to close the out-year gaps within the Financial Plan were speculative and could not be reasonably relied upon to produce either savings or additional revenues. By eliminating such potential actions from the Financial Plan, it was determined that the Financial Plan was no longer in balance and on May 18, 2016, the BFSA declared the plan to be insufficient and required the submission of a revised Financial Plan. The District did submit a revised plan in June 2016 which addressed the concerns of the BFSA.

The BMHA's 2016-17 budget estimates $45.7 million in total operating revenue and appropriates $43.9 million for total operating expenses. Operating revenues are projected to increase modestly from $45.7 million in 2017 to $46.9 million in 2020, an increase of $1.2 million or 2.6 percent over the Financial Plan. Operating expenses, including debt service, are projected to increase from $45.1 million to $46.4 million, an increase of $1.3 million or 2.9 percent over the Financial Plan. A surplus is projected annually.

The Financial Plan for BURA projected $48.4 million in expenditures over the four years of the Financial Plan. The Financial Plan submitted to BFSA shows expenditures decreasing each year over the Financial Plan through FY 2020 and revenues are projected to decrease in a corresponding manner. BURA's operating budget is largely financed with Community Development grants in addition to a few other smaller federal grants. In addition to the annual allotment approved by Congress, BURA has the option of drawing down prior year funds to fund programs. BURA is projecting a decrease in the amount of grant funds being received, and has adjusted the projected expenditures to match what is expected to be received from the U.S. Department of Housing and Urban Development. The BFSA's report on BURA's Financial Plan is included within this report in the section titled "BFSA Reports on the 2016-17 Budgets and 2017-2020 Financial Plans of the City of Buffalo and the Covered Organizations."

On June 21, 2016, the BFSA reviewed the final 2017-2020 Financial Plan and found the submission to be complete and compliant with the standards set forth in the BFSA Act.

Monitoring Fiscal Health

Regular and aggressive monitoring of spending, budgetary processes and cost-savings initiatives are essential to ensuring that the City continues its progress towards fiscal stability. Under the guidance of the 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 has resulted in the identification of necessary budget transfers or modifications, as appropriate, during the fiscal year.

During 2015-16, the BFSA monitored the 2016-2019 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, overtime monitoring, etc...), reviewing proposed collective bargaining agreements and determination of whether such agreements were consistent with the financial plan, and reviewing any proposed budget and financial plan modifications. The BFSA's final evaluation of the City's compliance with its budget for the year ended June 30, 2016 is expected to occur in or around December 2016 after the City Comptroller releases the audited financial statements.

In 2015-16, BFSA also monitored the regular quarterly reporting process of the City and its Covered Organizations and reviewed the projections to determine if revenues had been overestimated or expenditures/expenses had been underestimated, resulting in a need for a budget modification.

During FY 2015-16 both the BMHA and the District submitted budget modifications to BFSA; the modifications affected only FY 2015-16. For BMHA, the modification aligned revenue and expense lines to continue compliance with HUD's regulations and recognized increases in both revenue and expenses that was not previously expected. The budget modification includes an overall budgeted revenue increase of $0.9 million and an overall budgeted expense increase of $2.1 million resulting in a budgeted net income decrease of $1.2 million. The reduction to budgeted net income does not result in a budgeted deficit for 2015-16. The District's FY 2015-16 Adopted Budget was modified and has increased $5.1 million to $83.9 million to recognize additional grant revenue and related grant expenditures. A second District modification in the amount of $2.4 million was made to increase budgeted expenditures for nursing services; the increased costs associated with these services was funded through increased appropriation of NYS Aid.

Reports and Recommendations Issued by the BFSA during 2015-16

The BFSA issues reports during the year on various matters involving the City and the Covered Organizations that come before the BFSA during fulfillment of its statutory responsibilities. The following summary provides a description of the reports issued, recommendations provided to the City or Covered Organization as applicable, and the response from the City or Covered Organization as provided to such recommendations as appropriate.

City of Buffalo

- On July 29, 2015, the BFSA provided an update on the City's use of funding available from New York State Efficiency Grants, and also approved the redesignation of a portion of the funds to support several different projects in the City.

- On July 29, 2015, the BFSA received a report from the Executive Director of the City's Office of Strategic Planning addressing several issues including challenges faced by City residents such as poverty, education and lack of employment opportunities, continued investments made by the City in various neighborhoods, and the investment into the Buffalo Education and Training Center.

- On December 9, 2015, the BFSA provided a written and verbal report on the City's 2016 Capital Budget and 2016-2020 Capital Improvement Plan. The 2016 recommended Capital Budget contained twenty-five projects that totaled $30.4 million; financing in connection with the anticipated 2016 bond sale was requested in the amount of $20.6 million towards 2016 capital projects, with $9.8 million proposed to be authorized but unissued.

  The 2016 Capital Budget included only City capital projects and did not include any amount for the District as District management determined a capital borrowing in 2016 was unnecessary. The 2016-2020 Capital Improvement Plan met the requirements of the BFSA that the City develop a full five-year capital improvement program. However, the City had not complied with BFSA's recommendation to reduce the out-years of the Capital Improvement Plan accordingly to reflect increased authorizations over the Comptroller's cap the past two years.

  The BFSA has recommended that the City not include general maintenance functions as part of the Capital Budget, however the City did include building demolitions and tree trimmings/maintenance in the 2016 Capital Budget, which total approximately 13 percent of the proposed capital budget. It is also noted that this was the second consecutive year that the proposed Capital Budget has exceeded the Comptroller's maximum level for borrowing. It was recommended that the City revisit and modify the five-year Capital Improvement Plan and reduce future out-year authorizations to reflect the overages in the past two fiscal years.

- On December 9, 2015, the BFSA reported on the City's first quarter operations. At the end of the first quarter, the City was projecting a final $12.0 million deficit which represented a $3.0 million positive budget variance. The BFSA recommended that the City closely monitor sales tax revenue, traffic adjudication revenue and savings from the City moving to a self-funded health insurance program. The projected savings from the self-funded health insurance and the revenue associated with the traffic adjudication are both impacted by timing and the fact that there was a delay in implementation of both. Sales tax growth has been stagnate and had been curtailed by the decrease in gasoline prices and the weakening of the Canadian dollar against the U.S. dollar and the resulting decrease in consumer shopping by Canadians in WNY.

- On March 9, 2016, the BFSA provided a report on the City's 2015 audited financial statements. The presentation on the City's financial statements provided an analysis on revenues, expenditures and other year-end operational metrics, as well as historical trends analyses. The City ended its fiscal year in compliance with the budget. However, the BFSA noted that the Solid Waste and Recycling Fund ended the year with an operating loss of $5.6 million and an accumulated debt of $17.4 million which the City has set-aside in General Fund fund balance as a receivable from the Solid Waste and Recycling fund. The BFSA recommends that the City formulate a long-term plan to address the annual deficit and eliminate the cumulative deficit.

  The BFSA also recommended that the City should look for long-term concessions when negotiating with labor unions. Specifically, the City should be looking for greater employee contributions towards health insurance during employment, as well as requiring future retirees to contribute more towards their health insurance or to eliminate the retiree health insurance benefit all together.

- On March 9, 2016, the BFSA provided a written summary report of the final 2016 Capital Budget as approved by the City's Common Council on December 14, 2015. The total amount of the Capital Budget of $28.6 million was reduced by $1.8 million from the initially proposed amount of $30.4 million. The District did not budget an amount in the 2016 Capital Budget as the District is utilizing savings from bond refundings made in prior years to fund its current year capital needs. The final 2016-2020 Capital Improvement Plan was also adjusted to reflect the need to reduce planned capital expenditures in the out-years of the plan, as approved capital expenditures over the past several years exceeded the borrowing cap.

- On March 9, 2016, the BFSA provided a written and verbal report on the City's second quarter operations. At the end of the second quarter, the City was projecting a $13.0 million deficit and $2.0 million positive budget variance. In addition to the recommendations made at the December board meeting, which included lagging sales tax and traffic adjudication revenue, and lagging savings from moving into a self-funded health insurance program, the BFSA noted that overtime for both the Police and Fire departments was a significant risk since both departments were projecting to be $2.0 million over budget in regards to overtime.

- On March 9, 2016, the BFSA presented on the New York State 2016-17 Executive Budget and the potential impact it could have on the City and the District, and included grant opportunities.

- On May 18, 2016, the BFSA provided a written report on the City's third quarter operations. At the end of the third quarter the City was projecting a $10.7 million deficit and a $4.3 million positive budget variance. The BFSA raised concerns and recommended close monitoring of sales tax and traffic adjudication revenues, the lagged savings from moving into a self-funded health insurance program, and the amount of overtime expenditures. All of these concerns were previously raised and discussed at previous board meetings.

- On May 18, 2016, the BFSA reported on the City's Proposed 2016-17 Budget and 2017-2020 Financial Plan. While no modifications were requested, the BFSA raised several concerns on the City's Financial Plan including the inclusion of uncertain revenues, underestimating overtime for protective services and the continued use of unassigned fund balance to close the current year and out-years budget gaps.

- On May 18, 2016, the BFSA reviewed and provided a report in regards to the City Comptroller's proposed 2016 capital borrowing. From 2005 to 2007, capital borrowings were issued by BFSA on behalf of the City. Beginning in 2008, the City's resumed issuing debt in contemplation of the BFSA's eventual transition into an advisory period. The proposed 2016 capital borrowing provides financing for projects approved in 2013 to 2015 through the issuance of long-term general obligation bonds in the approximate amount of $47.0 million. Of the $47.0 million, $25.8 million is for new projects and $21.2 million is for refinancing previously issued general obligation bonds.

  BFSA's financial advisor structured a theoretical BFSA bond issuance to estimate the savings that could have been achieved if BFSA had issued debt on behalf of the City. The analysis estimated $715,730 in overall debt services savings if BFSA completed the borrowing as compared to the City, due to the higher credit rating of the BFSA, and $652,290 in present value savings.

- On June 6, 2016, the BFSA held a special meeting and issued two reports related to collective bargaining agreements with Local 264 and Local 2651, representing the blue-collar employees and building inspectors of the City, respectively. During review of these contracts, it was found that these contracts were unaffordable to the Solid Waste and Recycling Fund as this fund has been operating in a deficit for many years; these additional labor costs will ultimately be paid by the General Fund. The BFSA recommended that the City develop a formal long-term plan to address the annual operating deficit in the Solid Waste and Recycling Fund and the resulting long-term receivable in the General Fund.

- On June 21, 2016, the BFSA provided a brief written report on the City's Final 2016-17 Budget and 2017-2020 Financial Plan, outlining changes between the proposed and adopted budget. A copy of the BFSA's final report is included in the section titled "BFSA Reports on the 2016-17 Budgets and 2017-2020 Financial Plans of the City of Buffalo and the Covered Organizations." The BFSA found the City's adopted budget to be complete and compliant with the BFSA Act at this time.

- During the 2015-16 Fiscal Year, the BFSA reviewed and issued reports on three potential labor agreements impacting the City as follows:

  - A report was issued on July 29, 2015, related to a collective bargaining agreement with the Police Benevolent Association, representing the sworn police officers of the City.
  - A report was issued on June 6, 2016, related to a collective bargaining agreement with the Local 264 representing the blue collar workforce of the City.

- A report was issued on June 6, 2016, related to a collective bargaining agreement with the Local 2651 representing the building inspector's workforce of the City.

  In conjunction with the review of such collective bargaining agreements, the related incremental costs to the City were calculated and reviewed. The retroactive costs associated with these labor agreements had been accrued for in past years by the City. The current fiscal year costs (FY 2015-16) were fully funded within the current year budget and did not require a budget modification. With respect to prospective costs over the course of the financial plan, the City had budgeted for such incremental costs within a salary adjustment line used for unsettled labor agreements; no financial plan modification was necessary.

Buffalo City School District

- At the December 9, 2015 meeting, the BFSA provided a written report on the District's first quarter operations. At the end of the first quarter the District was projecting an operating deficit of $8.4 million.

- At the December 9, 2015 meeting, the BFSA provided a memorandum on the District's budget modification to the 2015-16 Adopted Budget. The modification was required to recognize additional grant-in-aid revenues to the District and the corresponding increase to budget appropriations in the amount of $2.4 million.

- Additionally at the December 9, 2015 board meeting the BFSA provided a presentation on the District's FY 2014-15 Audited Financial Statements. The report documented an operating deficit of $2.7 million for the year ended June 30, 2015, and is the fourth consecutive year that a deficit occurred.

- At the March 9, 2016 board meeting, the BFSA provided a written report on the District's second quarter operations. At the end of the second quarter the District was projecting an operating deficit of $10.6 million.

- At the March 9, 2016 board meeting, the BFSA provided a written report summarizing the potential impact of Governor Cuomo's State Fiscal Year ("SFY") 2016-17 Executive Budget as it relates to the Buffalo City School District.

- On May 18, 2016, the BFSA reported on the District's proposed 2016-17 Budget and 2017-2020 Financial Plan. The BFSA issued Resolution No. 16-05 finding that the District's stand-alone 2017-2020 Financial Plan was incomplete and out of balance by approximately $400,000 in FY 2017-18, resulting from speculative PEG actions that were deemed unilateral in nature including an increase in aid from the City, change in the bell schedule that would provide transportation savings and projected cuts to special education. The BFSA required the District to submit a revised financial plan in order to be able to assess whether the Financial Plan was complete and compliant with the provisions of the BFSA Act.

- Additionally at the May 18, 2016, Board meeting, the BFSA provided a written report on the District's third quarter operations. At the end of the third quarter the District was projecting an operating deficit of $8.3 million.

- On June 21, 2016, the BFSA provided a brief review of the District's revised 2017-2020 Financial Plan, which included necessary changes to address the projected remaining budget deficit in fiscal year 2017-18. The BFSA determined that the District's revised FY 2016-17 Adopted Budget and FY 2017-2020 Financial Plan were complete and compliant with the BFSA Act. A copy of the final report issued by the BFSA begins on page 70.

- Additionally at the June 21, 2016 meeting, the BFSA held a discussion with the District Superintendent. Items discussed at length included: the District's New Education Bargain with students, financial responsibility, and working on an improved relationship with the Buffalo Teachers Federation (the "BTF"). The New Education Bargain is a series of initiatives and plans to improve the provision of educational services in the City of Buffalo and includes such initiatives as lengthening the school day, reducing class sizes, implementing rigorous early elementary education programs, establishing community schools, expanding social supports for children and families, and implementing innovative high school programs. In addition, the District provided the Board with information concerning the Newcomer's Academy, which is a transition program created to assist the increasing number of English language learners living in Buffalo.

Buffalo Municipal Housing Authority ("BMHA")

- On July 29, 2015, the BFSA issued Resolution No. 15-13, finding the BMHA Final 2015-16 Budget and 2016-2019 Four-Year Financial Plan to be complete and compliant with the BFSA Act; however, the BFSA requested the Chair and the Executive Director of BMHA attend the September 21, 2015 BFSA Board meeting to discuss the need for affordable housing in Buffalo and the fiscal capacity and role of BMHA in meeting that need.

- On July 29, 2015, the BMHA Deputy Executive Director Modesto Candelario provided a presentation to the BFSA concerning the BMHA's budget, challenges currently facing the BMHA and housing authorities across the United States and options that BMHA is currently pursuing.

- On September 21, 2015, the BMHA Chair and Executive Director attended the BFSA board meeting per the request made by the BFSA on July 29, 2015. BMHA management provided a presentation on the current housing inventory in BMHA's portfolio and addressed concerns on how BMHA would be addressing the need for more affordable housing within the City. In addition, BMHA management assured the BFSA that a member of management would be at future BFSA meetings to address any concerns with the financial position of BMHA.

- On December 9, 2015, the BFSA reported on the BMHA's first quarter operations. At the end of the first quarter the BMHA was projecting a $720,196 surplus after payment of debt service for the 2015-16 fiscal year. The BFSA noted that salaries, even lower than the previous year, were trending above what was budgeted for the current fiscal year. The BFSA expressed concern and BMHA responded that additional revenues would be identified to fund the increase in salaries.

- On March 9, 2016, the BFSA reported on the BMHA's second quarter operations. At the end of the second quarter the BMHA continued to project a $720,196 surplus after payment of debt service for the 2015-16 fiscal year.

- On March 9, 2016, the BFSA reviewed a budget modification for the current fiscal year. The budget modification aligned BMHA revenue and expense lines with HUD's project-based management regulations and recognized increases in estimated revenues that were not previously expected and higher than projected expenditures. The budget modification had a net effect of decreasing the original surplus projected after debt service for the 2015-16 fiscal year by $1,152,800.

- On May 18, 2016, the BFSA reported on the 2017-2020 Financial Plan. The BFSA raised several concerns about the BMHA's Financial Plan. The main concern was the fact that salaries and wages are not projected to increase over the Financial Plan and labor contracts have all expired. Also, due to the current low manpower count, additional pressure is being placed on BMHA management to accomplish what needs to be done with fewer employees.

- Additionally, on May 18, 2016, the BFSA reported on the BMHA's third quarter operations. At the end of the third quarter the BMHA was projecting a $826,882 deficit after the payment of debt service for the 2015-16 fiscal year.

- On June 21, 2016, the BFSA provided a resolution stating that the Buffalo Municipal Housing Authority's Final 2016-17 Budget and 2017-20 Financial Plan was complete.

Buffalo Urban Renewal Agency ("BURA")

- On December 9, 2015, the BFSA provided a report on BURA's 2015 Audited Financial Statements and Single Audit Findings, reporting on key revenues, expenditures, personnel service costs and internal control findings.

- On March 9, 2016, the BFSA provided a written report on BURA's second quarter operations.

- On May 18, 2016, the BFSA provided a written report on BURA's Proposed 2016-17 Budget and 2017-2020 Financial Plan. The BFSA found that the BURA financial plan was complete at the time of submission and required no further information from BURA at that time. A copy of this report begins on page 95.

- Additionally, on May 18, 2016, the BFSA provided a written report on BURA's third quarter operations.

- On June 21, 2016, the BFSA provided a resolution stating that the Buffalo Urban Renewal Agency's Final 2016-17 Budget and 2017-20 Financial Plan was complete.

Workforce Summary and Trends

Workforce costs represent the single largest expenditure category in the City and its Covered Organizations. For the City in 2015-16, the costs of employee salaries, pensions, health insurance (for active and retired employees) and other benefits accounted for 84 percent of total General Fund budgeted appropriations. In the School District, these costs represented 54 percent of total General Fund budgeted appropriations. 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. Workforce costs continue to be the primary growing budget category due to increases in both wages and fringe benefits, including health insurance and pension contributions. As of June 30, 2016, the City has current labor agreements in place with all major labor unions, settling three of them in past year. The District is out of contract with most of its unions, including two of its largest, the Buffalo Teachers Federation and the Buffalo Council of Supervisors and Administrators, which have been out of contract since 2004.

The City's liability for its future retiree health insurance costs, representing the long-term other postemployment benefit (OPEB) liability, was required to first be reported at June 30, 2008 under generally accepted accounting principles ("GAAP"). This estimate is required to be revalued by an actuary every two years; the last valuation performed was in connection with year-end June 30, 2015 for the City. The City's OPEB obligation at June 30, 2015 was estimated at $1.4 billion. The District's obligation was estimated at $1.8 billion at June 30, 2015, based on carry forward assumptions. A full-valuation will be available later in the current fiscal year.

The OPEB liability for the BMHA is $87.8 million and $12.0 million for BURA at June 30, 2015; both amounts are unfunded.

For 2016-17, the City has increased its budgeted workforce by 26 positions compared to FY 2016. Actual filled positions in 2016 decreased by 9 to 2,352 as compared to 2,361 at fiscal year-end ("FYE") 2015. The decrease in actual employee levels on a year-to-year basis is attributed primarily to police and fire personnel retirements.

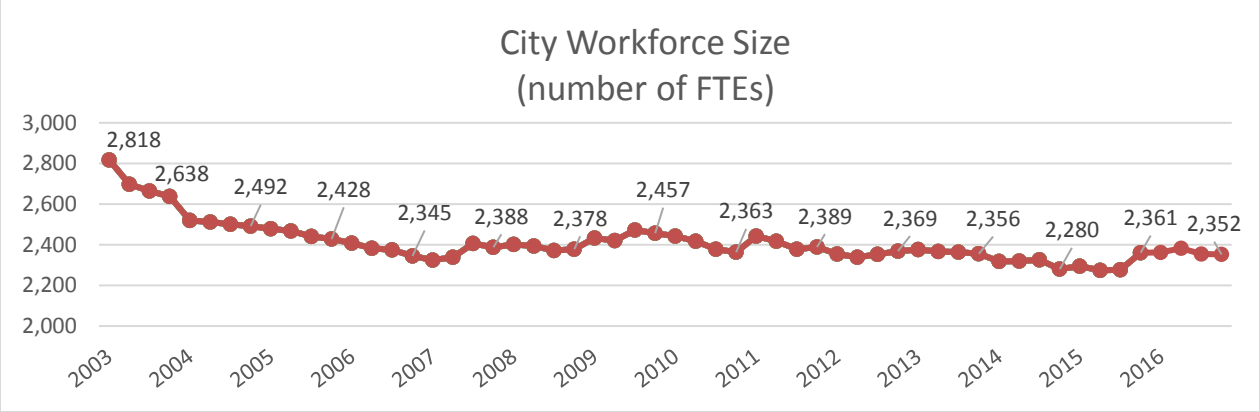
The District's 2016-17 modified budget increased budgeted positions by 18 full-time positions on a General Fund basis compared to the 2015-16 Adopted Budget. The increase is attributed to the addition of 19 teachers. As of June 30, 2016, the District employed 5,253 FTE's on an All Funds Basis, a decrease of 30 employees compared to the originally budgeted amount of 5,283. It is noted that staff levels remain below 2003-04 levels.

BMHA's workforce has decreased on a year-to-year basis, decreasing twenty-six positions to a total of 167 filled positions as of June 30, 2016. In recent years, BMHA has gone from 236 filled positions in 2012 to 218 positions in 2014, and decreased further to 193 positions at year-end

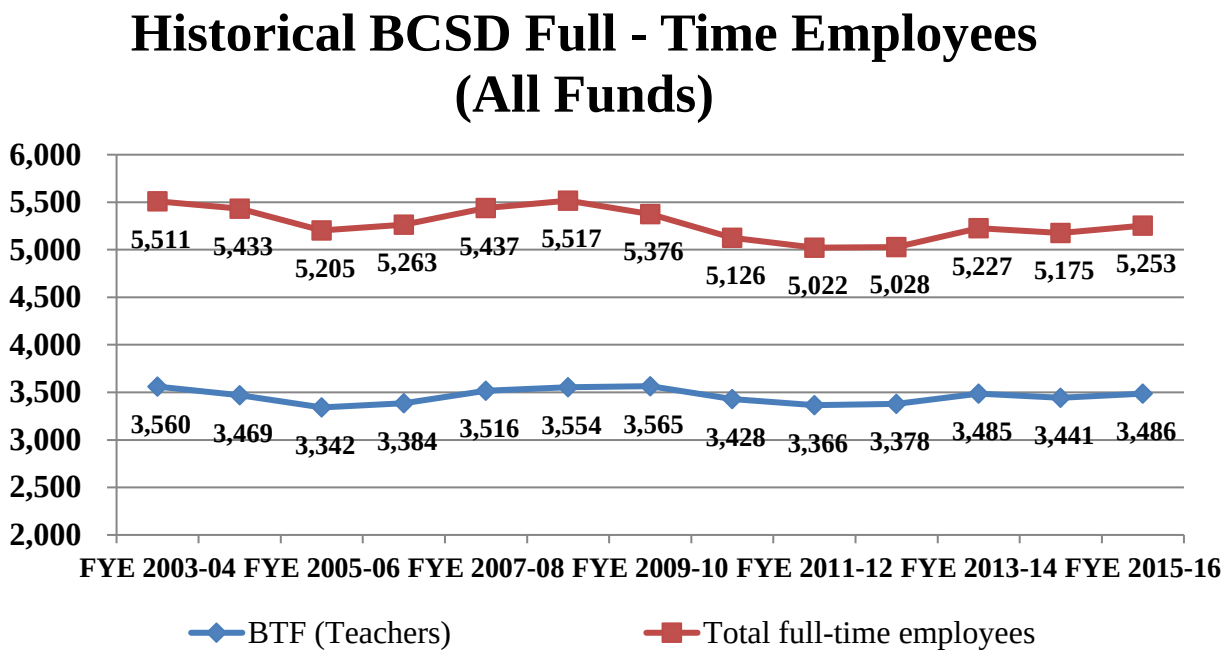
2015. Compared to FYE 2012, the current workforce has been reduced by sixty-nine employees over the last four years. The 2016-17 Adopted Budget includes 173 positions. The reduction in staffing is reflective of reduced federal funding experienced both nationally and regionally.

BURA had 43 positions budgeted and 40 filled at the conclusion of the 2015-16 fiscal year. BURA's workforce was reduced from 60 budgeted FTE's at FYE 2012 down to the current 40, a decrease of 20 positions over four years. Employment levels remain significantly below 2003-04 levels when BFSA was created. The significant decrease in BURA positions has been driven by several factors, including reductions in Federal grant funding, the elimination of programs and corresponding positions that were determined not to be an appropriate use of Federal CDBG funds. The reduction of BURA positions was largely through the elimination of vacant positions and, to a lesser extent, through layoffs.

The following charts show the City and District's staff levels since 2003.



Since the inception of the BFSA, the City has eliminated 466 FTE positions and reduced its workforce by 16.5%. The reduction in the workforce was achieved initially through a collaborative effort and consolidating certain functions with Erie County, including the maintenance of City parks and prisoner detention services. In addition, the City utilized layoffs as well as not filling vacant positions to reduce overall employee levels. Beginning in 2009, the City took back maintenance of City parks and the respective workforce when Erie County returned park services to the City. Erie County returned prisoner detention services back to the City of Buffalo in 2012 for male detainees and in 2015 for female detainees. All of these positions are in the City's General Fund.



The District has decreased its All Funds full-time workforce from 5,511 at FYE 2003-04 to 5,253 as of June 30, 2016. This is a decrease of 258 full-time positions or a decrease of 4.7% over the last twelve years.

Projected workforce trends are discussed in the individual entity reports within the section titled "BFSA Reports on the 2016-17 Budgets and 2017-2020 Financial Plans of the City of Buffalo and the Covered Organizations."

Providing a More Cost-Effective Financing Framework

Background and Bond Ratings

From 2004 through 2007, the BFSA issued debt on behalf of the City for both its capital and cash flow needs, refunded existing City debt at more beneficial interest rates, and provided short-term budgetary relief through deficit financing. 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, which enabled savings for the City upon issuance of its Declaration of Need. Beginning in 2008, in contemplation of exiting a control period, the BFSA permitted the City to begin to borrow on its own behalf.

The BFSA's credit rating is currently AAA by Fitch Ratings ("Fitch") and was increased in January 2015 from AA+, and Aa1 by Moody's Investor Service ("Moody's"). The Fitch rating, which is the higher of the two, represents the highest investment grade with minimal risk; whereas Moody's rating reflects a high investment grade and very low risk. Both credit ratings are consistent in that they represent a better credit rating then the City.

Pursuant to the BFSA Act, all of the City's State aid, along with both the City and 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. This intercept and first call provision allows BFSA to maintain a credit rating superior to the City's.

The City last received a bond rating upgrade in 2013-14 from Standards and Poor's Rating Services ("S&P") to A+ from A and reaffimed this rating in 2016. The rating from S&P is consistent with the bonds ratings from Moody's of A1 and Fitch of A+, both of which were also reaffirmed in 2016.

The City has made significant strides in improving its bond ratings since 2003. The financial oversight by the BFSA over the City has been consistently included as a key rationale in the determination that rating upgrades were appropriate. The rating agencies have commented on the financial success the City has had with respect to multi-year financial planning and the adequacy of the City's reserves, for example, but cautions that the overall high debt burden, below average socioeconomic indicators, and the use of reserves over the Financial Plan to fund general City operations, are factors that could potentially negatively impact the ratings.

Since BFSA was created in 2003, the City's credit rating has improved from BBB- with negative outlook from S&P, and from Baa with negative outlook from Moody's. Beginning in 2010, the City contracted with Fitch to also rate the City's debt. The City's credit ratings in 2003 were perilously close to the "non-investment grade" by the rating agencies. It is noted that currently the rating outlook from all three rating agencies is stable.

A historical overview of bond ratings, by agency, since 2003 is as follows:

- Moody's, similar to previous three years, affirmed the City's A1 rating with a stable outlook on the City's 2016 general obligation debt, which totaled $25.8 million of new issuance. Moody's last upgraded the City in 2012 from A2, citing significant improvements of the City's financial operations and liquidity following the augmentation of reserves in each of the last nine years and a trend of structurally balanced operations, despite near-term declines. The A1 rating pointed to the following factors: (1) challenges posed by the city's below average demographic profile, (2) a high debt burden that is expected to gradually moderate, (3) the challenges posed by open employee contracts, (4) the oversight of City operations by the Buffalo Fiscal Stability Authority, which had approved the City's four-year financial plan; (5) the City's improved revenue raising flexibility given modest growth in assessed valuation and improved taxing margin, and (6) 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 eight fiscal years.

Prior to the 2012 bond rating upgrade, Moody's upgraded the City's general obligation debt from Baa2 to an A2 rating with a stable outlook in the 2010-11 fiscal year. In 2007, Moody's upgraded the City credit rating from Ba to Baa2, reflecting "the city's improved financial profile, stronger financial management controls, and continued advisement provided by the Buffalo Fiscal Stability Authority."

- S&P reaffirmed the City's A+ bond rating with a stable outlook on the City's 2016 general obligation debt. S&P last upgraded the City's rating from A to A+ in 2014. This rating represents a high investment grade, with low risk, similar to the Fitch rating of A+. Both S&P and Fitch have assigned higher credit ratings for the City compared to Moody's. The rational provided to support the A+ rating included: (1) Very strong management conditions, with strong financial management policies and practices and oversight provided by the BFSA; (2) weak debt and contingent liability profile when pension and other postemployment benefits are considered; (3) weak budgetary performance in 2013 after adjusting for nonrecurring revenues and expenditures; (4) adequate budgetary flexibility, with strong reserves; (5) limited revenue and expenditure flexibility; (6) and very strong liquidity.

  Prior to the bond rating upgrade, S&P last upgraded the City from A- to an A rating with a stable outlook on the City's general obligation long-term debt in the 2010-11 fiscal year. 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 2016 at A+ with a stable outlook. The stated rating rationale included: (1) the BFSA has assisted the City in restoring a sound fiscal foundation, resulting in much improved reserve levels, (2) BFSA transition from a control period to an advisory period, reflecting fundamental financial improvements, (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. As noted above, Fitch was first contracted by the City to begin rating the City's debt beginning in 2010, and the City has maintained the A+ stable outlook since then.

The following table illustrates credit rating comparisons between BFSA and the City of Buffalo in fiscal year 2016:

	Moody's	S&P	Fitch
BFSA's Rating	Aaa Highest Investment Grade / Minimal Risk	AAA Highest Investment Grade / Minimal Risk	AAA Highest Investment Grade / Minimal Risk
BFSA's Rating	Aa1 High Investment Grade / Very Low Risk	AA+ Very High Investment Grade	AA+ Very High Investment Grade
City's Rating – Fitch and S& P		A+ High Investment Grade / Low Risk	A+ High Investment Grade / Low Risk
City's Rating - Moody's	A1 Upper Medium Grade / Low Risk		
	Baa Moderate Risk	BBB Moderate Risk	BBB Moderate Risk
	Ba Speculative / Substantial Risk	BB Speculative	BB Speculative

The BFSA's bond ratings are three steps higher for Moody's and four steps higher for S&P, based on current ratings.

Forward Delivery Agreements and Related Investment Earnings

In conjunction with issuing debt on behalf of the City, the BFSA previously entered into forward delivery agreements ("FDAs") to invest the debt-service set asides that are withheld monthly from sales tax receipts as required for annual principal and interest payments. For the year ended June 30, 2016, the BFSA reported a total of $372,832 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 percent and 5.24 percent, which far exceeded the rate of return the City earned during 2016 of approximately 0.19 percent. The BFSA earned $372,185 from the FDAs during the year ended June 30, 2016. The remaining amount of $647 was earned on the AIM funds held by the BFSA and on the operating funds.

Review of 2016 Capital Budget and Related Capital Borrowing

As previously noted, during the year the BFSA reviewed and reported on the City's 2016 Capital Budget of $28.6 million and the Comptroller's respective proposal to borrow $27.6 million (which reflects a portion of 2014, 2015 and 2016 approved projects) for anticipated capital needs through the issuance of a long-term general obligation bond. In previous years, from 2012 to 2015, the City Comptroller reduced the annual authorized maximum borrowing between 10 and 15 percent to limit the City from borrowing for projects that were not deemed shovel-ready in order to borrow for what the City was ready to use, to increase efficiencies, and to reduce borrowing costs on funds that would not be utilized in a timely manner. In 2016, the City adopted a capital budget in the amount of $28.6 million and borrowed $27.6 million, which included $18.6 million for projects approved in the 2016 adopted capital budget and $9.0 million from projects approved in prior years but have not yet been financed. It is noted that the City has not required a cash flow borrowing since 2006.

BFSA Debt Issuances and Refundings

In December 2015, the BFSA issued a refunding bond to refund the outstanding 2005A and 2006A series. This refunding provided net present value savings of $1.35 million over the next ten years, which will ultimately be passed along to the City. The following table contains a listing of all BFSA debt transactions since the BFSA was created, and amounts outstanding at June 30, 2016:

BFSA Debt Table at June 30, 2016

($ in thousands)	Issue Date	Bond Par Issued	Note (BAN) Par Issued	Bond Par Outstanding	Note Par Outstanding
Sales Tax and State Aid Secured Bonds (Series 2004A)	Jun-04	$25,745		$0	
Bond Anticipation Notes (Series 2004A-1)	Sep-04		$84,000		$0
Sales Tax and State Aid Secured Bonds (Series 2005A)	Jun-05	$28,030		$0	
Sales Tax and State Aid Secured Bonds – Refunding (Series 2005B&C)	Jul-05	$47,065		$4,660	
Bond Anticipation Notes (Series 2005A-1)	Jul-05		$90,000		$0
Sales Tax and State Aid Secured Bonds (Series 2006A)	Apr-06	$27,270		$0	
Bond Anticipation Notes (Series 2006A-1)	Apr-07		$60,000		$0
Sales Tax and State Aid Secured Bonds (Series 2007A)	Apr-07	$28,470		$16,095	
Sales Tax and State Aid Secured Refunding Bonds (Series 2015A)	Dec-15	$14,170		$14,170	
Total		**$170,750**	**$234,000**	**$34,925**	**$0**

Structural Reform and Savings Opportunities

The identification and implementation of new cost-savings initiatives is critical to the long-term fiscal stability of the City and its Covered Organizations. The City has projected structural budget deficits over the 2017-2020 Financial Plan in which expenditures are projected to exceed revenues by 1.5%. The City's Financial Plan includes a cumulative deficit of $30.7 million being reported for the 2017-2020 fiscal years. Without reductions in expenditures or an increase in revenues, the City's current budget structure is unsustainable on a long-term basis. Future structural savings need to continue to focus on employee compensation and benefits, in particular with respect to healthcare costs and employee and retiree contributions towards health insurance.

For the District's FY 2016-17 Adopted Budget, year three of a school-based budgeting process was implemented. All public schools were provided with baseline staffing levels and were allocated flexible funds on a per pupil basis for students for English Language Learners (ELL) and Special Education Students (SWD). Additionally, schools were given more autonomy to decide the preferred manner of allocating discretionary funds based on the individual school's needs. Schools that had previously received New York State School Improvement Grant funds received additional resources from the General Fund to help the school transition following the expiration of this grant funding.

The fiscal impact of these issues were examined in detail in BFSA's analysis of the District's 2017-2020 Financial Plan which is included herein and begins on page 70.

Collective Bargaining Agreements

The BFSA meets to discuss any proposed collective bargaining agreement before the agreement is adopted by the governing body of the City or the Covered Organization. The BFSA issues reports on all proposed labor agreements, and requests responses from the City or the Covered Organization to any recommendations that are made by the BFSA. Such reports and related recommendations have been discussed in the section "Reports and Recommendations Issued by the BFSA during 2015-16," beginning on page 10.

Efficiency Funding

The non-competitive State funds are earmarked specifically for investments in efficiency-related projects and require BFSA approval. There were no reductions to these efficiency incentive grant appropriations in 2015-16; it is noted that reductions by New York State did occur previously for a combined decrease of $4.9 million. The total amount available to the City is $20.1 million of which all of these funds have either been spent and reimbursed, in the process of implementation, or have been committed to projects.

As of June 30, 2016, the City had received $19.7 million of efficiency grant funding as a combination of advance funding and valid reimbursements of dollars spent, with a remaining authorized project balance of approximately $348,000 remaining. During the 2015-16 fiscal year, the BFSA approved one reimbursement draw-down from the State on behalf of the City in the amount of $883,788. On July 29, 2015, the BFSA approved a request by the City to redesignate

New York State Efficiency Incentive Grant funding to new projects and increase funding to previously approved projects. This redesignation resulted in reallocating $169,500 for an online assessment roll system, reduction of $24,608 from the installation of the City Hall emergency generator, and a reduction of $702 from the City Hall mail management system. The redesignation of funds for ongoing projects included an additional $169,500 for a pay and display parking meters technology upgrade and $25,000 for continuation of the MUNIS upgrade, which is the financial software used by the City.

Additional BFSA Operational Information:

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. The freeze, effective April 2004, prevented any increase in wages, including increased payments for salary adjustments according to "plan and step-ups or increments." BFSA has successfully defended each case. Currently there are no pending cases involving the BFSA.

The New York State Court of Appeals heard the series of wage freeze challenges on February 9, 2011 and rendered an unanimous decision in favor of BFSA on March 29, 2011. It was a key decision, in that it overturned earlier decisions made by the NYS Supreme Court and Appellate Court which had both ruled against the BFSA and covered entities. The Court of Appeals found that, "Thus, the entire purpose of the statute was to place the City of Buffalo on sound financial ground over the long term. In order to accomplish such purpose, BFSA was empowered to freeze wages and salary increments until the City's growth and stability were renewed. The intent of the statute supports the City's position."

Annual Internal Controls Review/Governance

The purpose of the internal control structure 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's Principal Analyst served as the BFSA's Internal Controls Officer for 2015-16. The Internal Controls Officer is responsible for the review of internal control policies and procedures on an annual basis, or more if necessary, and regularly meets with BFSA staff to ensure internal control performance standards are being met and recommendations are being executed. The Internal Controls Officer meets a minimum of once a year with the Governance Committee to report on the procedures performed and findings made in conjunction with the internal controls review.

An internal management committee consisting of the Executive Director, Comptroller and Principal Analyst/Internal Controls Officer provides accountability for the internal control processes. In addition, the Executive Director and Comptroller work closely with BFSA's independent auditor who also reviews the internal control structure and performs tests to determine if it is operating effectively, as well as determining if any identified deficiencies have been 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 for areas such as procurement, investments, financial transactions, travel, purchase card reimbursement and general reimbursement policies, and also includes the office technology and facilities management handbook. BFSA is satisfied that the internal control structure and the related policies and procedures provides an adequate system of controls so that errors do not occur without being detected in a timely manner, and assets are adequately safeguarded.

BFSA took a series of steps in 2015-16 to reinforce its system of internal controls including:

- In July 2015, the Board of the BFSA reviewed, affirmed or adopted the following policies and procedures of the BFSA:

    - The Prompt Payment Policy, which provides guidelines and timing requirements concerning the payment of vendors for goods and/or services;

    - The Property Disposal Guidelines detailing the BFSA's operative policy on the disposal of personal property;

    - The Whistleblower Policy, which provides guidelines and a process for whistleblowers to report illegal or unethical practices by the BFSA, staff members or Directors;

    - The BFSA Bylaws, which provides guidelines and procedures for the operations of BFSA, including formation of committees, board meetings, and other general operations;

    - The BFSA Code of Ethics, which each Director and staff member, excluding the ex-officio members, are required to receive, review and sign in affirmation that they have received a copy of the BFSA Code of Ethics and will abide by it. The Code Ethics states the BFSA's position on conflicts of interest, personal integrity, honesty, ethical conduct and public trust;

    - The BFSA Investment Guidelines, which establish a set of basic procedures to meet investment objectives and other specific criteria;

    - The BFSA Mission Statement which identifies BFSA's mission;

    - The Lobbying Contact Policy, which provides a procedure for documenting contact between lobbyist and Directors or staff. The appointment of the Lobbying Contact Officer provides a contact person to oversee the implementation of the Lobbying Contact Policy;

    - The Procurement Guidelines, which provides guidelines in regards to the use, awarding, monitoring, and reporting of procurement contracts during the course of BFSA business;

- The Procurement Report, which provides a summary of all procurement contracts that BFSA was engaged with in excess of $5,000;

- The Prompt Payment Report, which provides a listing of new contracts entered into during the 2014-15 fiscal year as well as any interest paid to vendors including the reason the payment was late;

- The Use of Discretionary Funds Policy, which delineates the proper use of the BFSA's discretionary funds, addressing what constitutes a proper discretionary expenditure related to the mission of the BFSA; and

- The BFSA Directors discussed and approved the lease agreement between BFSA and Sinatra and Company Real Estate for the lease of the BFSA offices located at 617 Main Street, Buffalo, NY.

- In March 2016, the Board approved the revised Procurement Guidelines, which were modified to reflect New York State Executive Law Article 17-B, as it relates to procurement with Service-Disabled Veteran-Owned Business Enterprises and provides guidelines in regards to the use, awarding, monitoring, and reporting of procurement contracts during the course of BFSA business. The procurement guidelines were also modified to include discretionary buying thresholds pursuant to guidelines established by the State procurement council.

Additional governance related BFSA actions included:

- In July 2015, the BFSA Board received an organizational overview that provided details on the BFSA, as well as employee levels of the City of Buffalo, Buffalo City School District, Buffalo Urban Renewal Agency and the Buffalo Municipal Housing Authority.

- In July 2015, the BFSA Board reconstituted the Governance Committee, reflecting the departure of a Director from the Board and appointed Interim Vice-Chair Juarasek to the vacant position.

- In September 2015, the Governance Committee met and tallied the results of the Board of Directors self-evaluation.

- In September 2015, the Audit, Finance and Budget Committee received a presentation on the BFSA's 2014-15 Independent Auditor's Report and received the BFSA Annual Report for fiscal year 2014-15, which the committee recommended for approval to the full board.

- In September 2015, the Audit, Finance and Budget Committee received the BFSA's Annual Investment Report, which provides an annual update on the investments held by the BFSA, investment earnings and fees paid to trustees.

- In September 2015, the Audit, Finance and Budget Committee approved a contract with Public Financial Management as Financial Advisors to the BFSA.

- In September 2015, the BFSA Board upon recommendation of the Audit, Finance and Budget Committee approved a resolution for the BFSA to proceed with the 2015 BFSA Bond Refunding.

- Additionally, in September 2015, the BFSA Board of Directors delegated to certain officers of the Authority to approve the issuance of the 2015A refunding bond.

- In December 2015, the Internal Controls Officer met with the Governance Committee to report on the results of the internal audits in regards to:

    - Budget Preparation and Approval Process; and
    - Asset Purchase, Inventory and Control Processes.

- In December 2015, the Board upon the Governance Committees recommendation approved the Authority Mission Statement and Performance Measurements report.

- In December 2015, the Board approved the 2016-17 Minority and Women-Owned Business Enterprise Goal Plan. The goal includes an overall 30% participation goal with 15% participation equally by both Minority and Women Business Enterprises, same in total as compared to the prior year goals. The BFSA will continue to seek procurement opportunities with qualified MWBE's.

- In December 2015, the Board adopted a 2016 Public Meeting Calendar and publically posted the scheduled meeting dates on the BFSA website.

- In December 2015, the Board received a final summary memo in regards to the Board self-evaluation. The Director's noted, "that the difficulty in receiving current and accurate information from the Covered Organizations makes it difficult for the BFSA to perform its duties and fulfill its responsibilities."

- In December 2015, the Board received a report on the BFSA bond refunding, with a net present value savings earned through the sale after all costs had been paid out of $1.35 million, equivalent to approximately 7 percent of refunded bond savings.

- Also in December 2015, the BFSA Board of Directors received a copy of the BFSA's first quarter operation results for FY 2016.

- In March 2016, the Audit, Finance and Budget Committee reviewed the BFSA's 2016-17 Preliminary Budget and 2017-2020 Financial Plan and approved the posting of the budget for public review and comment.

- In March 2016, the Audit, Finance and Budget Committee approved the engagement Lumsden & McCormick, LLP as independent auditor of the BFSA for the fiscal year ended June 30, 2016.

- In March 2016, the Board approved the 2016-17 Service Disabled Veteran-Owned Business Enterprise Goal Plan. The goal includes an overall 6 percent participation goal; the BFSA will continue to seek procurement opportunities with qualified SDVOB's.

- On March 9, 2016, the Board received a copy of the BFSA's second quarter operating results. In addition, the Board received copies of the BFSA rating agency reports from Moody's and Fitch.

- On March 9, 2016, the Board received an update on the City of Buffalo's efficiency grant program and remaining balance. In addition, the Board received a report from the BFSA on a Memorandum of Understanding between the Buffalo City School District and the Buffalo Council of Supervisors and Administrators for schools under receivership.

- In May 2016, the BFSA received the BFSA's third quarter operating results.

- In June 2016, the BFSA Board adopted the BFSA's 2016-17 Budget and 2017-2020 Financial Plan.

- The BFSA provides an opportunity at the end of each public meeting a privilege of the floor, for members of the public to provide comments. The BFSA received public comments at the following meetings:

    - July 29, 2015;
    - September 21, 2015;
    - May 18, 2016; and,
    - June 21, 2016

Financial Statements

BFSA received a clean, unqualified opinion on its 2015-16 audited financial statements from its independent outside auditor, Lumsden & McCormick LLP. That audit report was reviewed, accepted and approved by the Board at its September 21, 2016 meeting. The 2015-16 audit report along with all previous independent audit reports of BFSA's finances, are available on the BFSA's website.

Budget

BFSA took several actions regarding its budget during the 2015-16 fiscal year:

- In March 2016, the BFSA's Audit, Finance and Budget Committee authorized by resolution the posting of BFSA's proposed 2016-17 budget and 2017-20 financial plan in at least five separate locations of the Buffalo and Erie County Public Library system. 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.

- In June 2016, after the public review period had been completed the Board adopted BFSA's 2016-17 budget and 2017-2020 financial plan.

Health Insurance Plans

In 2015-16, 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 a current party to a lease with the Sinatra and Company Real Estate for its offices in the Market Arcade Building located at 617 Main Street, Suite 400, Buffalo, New York, 14203. The monthly amount is currently $3,553; the BFSA expended $38,865 for the fiscal year ended June 30, 2016; the BFSA received one-month of rent for free due to signing of a new lease with Sinatra and Company Real Estate.

Cumulative Financial Impact of Actions taken by the BFSA

As discussed within this Annual Report, there are various powers provided to the BFSA that, upon action by the BFSA, have resulted in financial impact to the City and Covered Organizations. A cumulative summary of such actions is as follows:

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, 2015	$166.5	million
Drawdown of Efficiency Grants	$18.9	million
Subsequent Wage Freeze Impact on Firefighters' Arbitration Award	$14.5	million
Reduction in Cosmetic Surgery Expenditures City-wide	$10.6	million
Savings on Debt Issuance Costs	$5.0	million
Interest Earnings over what the City could have earned	$3.5	million
Disapproval of BMHA Labor Contracts	$2.4	million
Refinancing of City Debt	$1.8	million
2015A Refunding of outstanding 2005A & 2006A series	$1.4	million
Participation in JSCB Phase II Bond Pricing	$1.0	million
Deputy Superintendent's Separation Agreement	$0.2	million
Subtotal	**$310.4**	**million**
City and Covered Organization Financial Plan Actions		
Fiscal Year 2003-04		
City Financial Plan Actions in 2003-04	$2.9	million
District Financial Plan Actions in 2003-04	$37.4	million
BURA Financial Plan Actions in 2003-04	$2.4	million
Fiscal Year 2004-05		
City Financial Plan Actions in 2004-05	$22.9	million
District Financial Plan Actions in 2004-05	$19.7	million
BMHA Financial Plan Actions in 2004-05	$1.0	million
Reduction of Proposed Capital Bond Sale	$6.7	million
Fiscal Year 2005-06		
City Financial Plan Actions in 2005-06	$4.9	million
District Financial Plan Actions in 2005-06	$21.6	million
BMHA Financial Plan Actions in 2005-06	$4.0	million
Fiscal Year 2006-07		
City Financial Plan Actions in 2006-07	$5.1	million
District Financial Plan Actions in 2006-07	$16.2	million
Subtotal	**$144.8**	**million**
Total Impact to Date	**$455.2**	**million**

Cumulative Financial impact of BFSA and the BFSA Act (Table 2)
Other Actions
Credit Related:
Improved BFSA credit rating to AAA stable from Fitch (2015)
Improved City credit rating at A+ stable from S&P (2014)
Received rating on BAN from Moody's at MIG I Stable (2013)
Improved City credit rating at A1 stable from Moody's (2012)
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)

Cumulative Financial impact of BFSA and the BFSA Act (Table 3)

Other Actions

Labor Related:

Reviewed and reported on three City of Buffalo labor agreements including Police Benevolent Association Local 264 "Blue Collar" and Local 2651 "Building Inspectors (2016)

Reviewed and reported on a City of Buffalo labor agreement with Local 650 "White Collar" (2015)

Reviewed and reported on a CBA between BURA and CSEA 815 (2015)

Reviewed and commented on several District labor agreements including Local 264 Food Service Workers and Summer Food Service Workers, Transportation Aides of Buffalo, and a Retirement Incentive with Buffalo Council of Supervisors and Administrators (2015)

Reviewed and reported on two City of Buffalo labor issues including an Arbitration Award with the Police Benevolent Association (PBA) (2013) and a CBA with the Local 264T "Caulkers" (2014)

Reviewed and commented on one District labor agreements including a retirement incentive for Cafeteria Cook Managers, Local 264 (2014)

Reviewed and commented on several District labor agreements, including a retirement incentive for Cafeteria Managers (2012), a CBA for Blue Collar employees (2012), and a MOU with the Buffalo Teachers Federation (2013)

Reviewed and reported on two City of Buffalo labor agreements, including a CBA with the Crossing Guards (2012) and the Buffalo Firefighters (2013)

Reviewed and reported on a CBA between BMHA and Local 17 - Operating Engineers (2013)

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 District's Summer Food Service Workers (2012, 2010 and 2008)

Implemented new labor contract with the Districts 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 District (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 District (2008)

Implemented new labor contract with the Buffalo Educational Support Team and the District (2008)

Implemented new labor agreement with the City's White-Collar workers (2008)

Implemented new labor contract with Buffalo Crossing Guards, Inc. (2008)

BFSA Reports on the 2016-17 Budgets and 2017-2020 Financial Plans of the City of Buffalo and the Covered Organizations

Overview

This section summarizes the financial plans of the City of Buffalo (the "City") and the Covered Organizations which include the Buffalo City School District (the "District") and the Joint Schools Construction Board ("JSCB"), the Buffalo Urban Renewal Agency ("BURA"), and the Buffalo Municipal Housing Authority ("BMHA").

The initial 2017-2020 Financial Plan was submitted by the Mayor to BFSA on April 29, 2016 in accordance with the timing requirements of the BFSA Act. The BFSA declared the 2017-2020 Financial Plan to be incomplete with respect to the District and required the District to submit a revised financial plan. The District submitted a revised financial plan on June 10, 2016. On June 21, 2016, the BFSA reviewed the modifications to the District's Financial Plan and the BFSA determined that the 2017-2020 Financial Plan as a whole was complete and complied with the standards set forth in the BFSA Act.

The BFSA's detailed analyses on the financial plans of the City and the Covered Organizations follow in this section.

City of Buffalo

Report on the 2016-17 Adopted Budget and 2017-2020 Financial Plan

OVERVIEW OF THE 2016-17 ADOPTED BUDGET

Overview

The City of Buffalo's 2016-17 budget was adopted on June 8, 2016. The 2016-17 Adopted Budget ("Adopted Budget") provides for General Fund expenditures of $493.9 million, representing an increase of approximately $2.4 million, or 0.5 percent, over last year's adopted budget of $491.5 million. Total 2016-17 revenues are estimated at $483.3 million, an increase of $6.8 million, or 1.4 percent, above the prior year's estimated revenues of $476.5 million. The excess of budgeted appropriations over estimated revenues is funded through the use of fund balance in the amount of $10.7 million.

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

Budget Summary

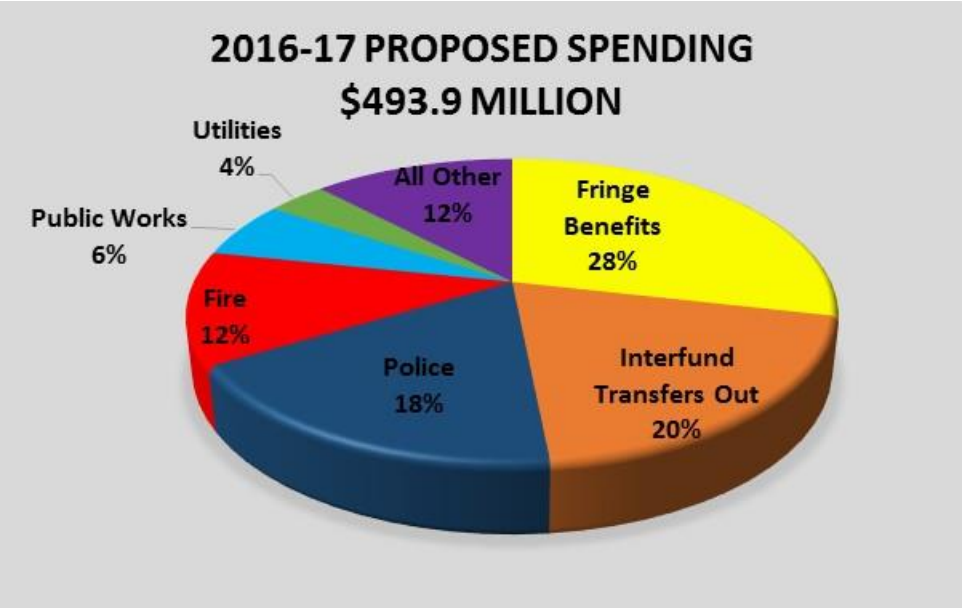
Total budgeted appropriations of $493.9 million include total budgeted Other Financing Uses (i.e., Operating Transfers Out) of $98.2 million. This balance consists of four separate transfers: the annual operating transfer to the Buffalo City School District (the "District") ($70.3 million); the transfer to the Debt Service Fund for the payment of principal and interest due in 2016-17 on outstanding debt ($24.3 million); an operating transfer to the Solid Waste and Recycling Fund to provide funding to offset the operating deficit ($3.2 million); and a transfer to the Capital Planning Projects Fund ($0.4 million). Total budgeted appropriations for Operating Transfers Out on a year-to-year basis represent a decrease of $0.5 million, which is attributed to a decrease in the amount required to be transferred to the Debt Service Fund for principal and interest on debt.

The largest transfer out is to the District in the amount of $70.3 million; this contribution from the City of Buffalo ("the City") has been held consistent since fiscal year ("FY") 2008. The District is a dependent school district, as established by New York State (the "State"), and cannot levy taxes; as such, it relies on an annual contribution from the City to partially fund operations.

The City's tax levy as adopted for 2016-17 is $139.6 million, which is an increase of $2.6 million compared to the 2015-16 tax levy of $137.0 million. This is the first increase in the tax levy since 2010-11. Prior to this year, the City's tax levy had decreased annually from $144.3 million in FY 2011 to $137.0 million in FY 2016, representing a decrease of $7.3 million, or 5.1 percent, over a five-year period. The increase in the real property tax levy of 1.9 percent is attributed to properties that are now included in the taxable assessment roll; these property owners had been making payments in lieu of taxes ("PILOTs"). Corresponding, the estimated revenue for PILOTs has decreased by $2.3 million.

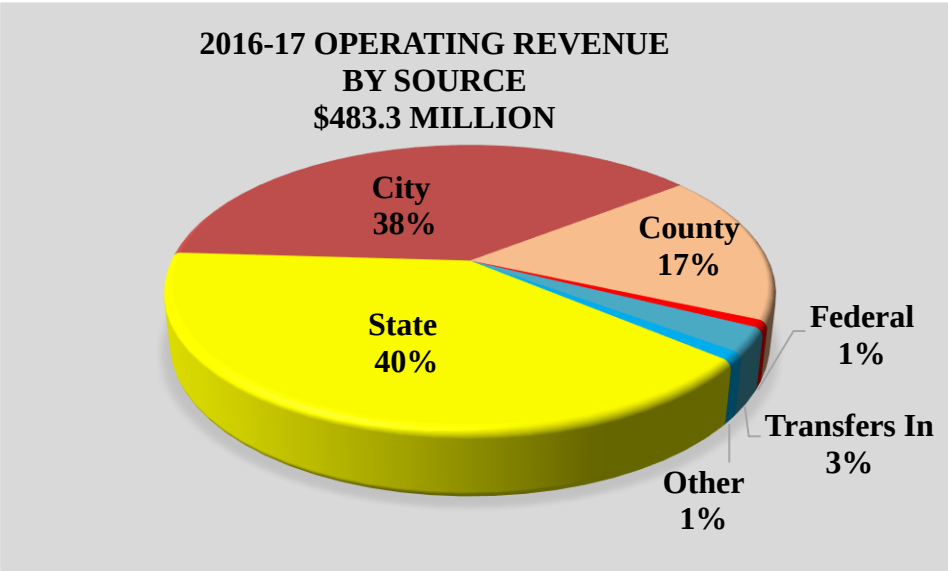
The remaining operating budget, excluding transfers, provides a clearer picture of the amounts budgeted by the City for the general operations of the City and the provision of City-wide services. This remaining amount is $395.7 million, compared to $392.8 million in FY 2016, and has increased approximately $2.9 million, or 0.7 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:



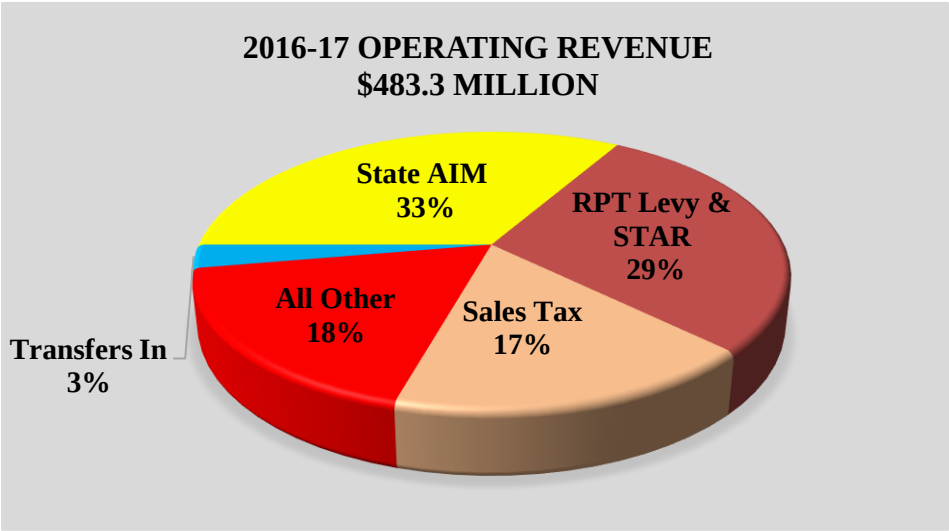
The largest components of the budget are as follows: Fringe Benefits (28 percent), which includes health insurance for both active employees and retirees, pension contributions, employer payroll taxes, and other similar commitments; Operating Transfers Out (20 percent); Police (18 percent); and Fire (12 percent). These four areas combined constitute 78 percent of the total budget. Public Works comprises an additional 6 percent of total budgeted appropriations and Utilities represents another 4 percent. All remaining departments and general charges comprise the remaining 12 percent of expenditures. Per the recently settled Collective Bargaining Agreements ("CBA's") with the blue-collar union (Local 264) and the building inspectors (Local 2651) in June 2016, personnel service costs as well as corresponding components of Fringe Benefits have increased to reflect the associated increased labor costs. As a percentage of the total operating budget, the most significant expenditure changes on a year-to-year basis was in regards to Fringe Benefits, which comprised 31 percent of the total budget last year and has been reduced by 3 percent. This reduction is related to the elimination of the Salary Adjustment line of $9.0 million, which represents the annual accrual for unsettled labor contracts and is being reallocated within the budget directly to the various departments to reflect labor cost increases reflective of recent labor settlements. The offset is largely within the Police Department which now constitutes 18 percent of the total budget as compared to 17 percent last year and reflects increased salary costs associated with a recently settled labor contract. These matters are discussed in more detail later in this report.

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



The first chart illustrates the main sources of estimated operating revenues of $483.3 million, by summarizing the various revenues according to the originating source. The largest contributor of revenue to the City is the State which is budgeted to provide $192.5 million, or 40 percent to the City, a decrease of $0.6 million from the prior year. Total State Aid includes State Aid and Incentives to Municipalities ("State AIM"), grants and program specific funding. The second largest revenue source is the City itself at $186.3 million, which is an increase of $4.3 million from last year's amount of $182.0 million. City revenue includes Taxes (including property taxes), Fines, Licenses and Permits, sale of land/assets, and various other miscellaneous revenue categories. The third largest revenue contributor is Erie County, at 17 percent, with the most significant revenue source being Sales Tax, providing for $82.7 million. Other revenues to the City bring the total contributed amount from the County to $82.8 million. Total County revenue, specifically Sales Tax, is estimated to remain flat in the adopted 2016-17 budget as compared to the prior year. Transfers In from the Enterprise Funds of $13.1 million, or 3.0 percent of total revenues, include transfers from the Parking Enterprise Fund ($6.2 million), Water Enterprise Fund ($6.2 million) and the Recycling and Refuse Fund ($0.7 million). Federal revenue ($3.9 million) and Other revenue ($4.6 million) each represent 1.0 percent of total revenue in fiscal year 2016-17. Other revenue of $4.6 million constitutes 1 percent of total revenues and represents service charges to other government entities.

The next chart demonstrates the main categories of estimated operating revenues of $483.3 million. The largest categories are State AIM, City revenues consisting of the real property tax levy and the School Tax Relief ("STAR") program, and Erie County Sales Tax. The City's real property tax levy and STAR accounts for 29 percent of total budgeted revenues, State AIM accounts for 33 percent and County revenues, of which sales tax is the largest component, accounts for 17 percent of the City's total revenues. It is important to note that these three revenue sources compose 79.0 percent of the City's operating revenues. The categories individually have not fluctuated significantly from last year.



In addition to the $483.3 million in projected operating revenues, the City has projected it will utilize $10.7 million of unassigned fund balance, a decrease of $4.3 million over the prior year adopted budget.

The Adopted Budget includes an increase in the City's property tax levy to $139.6 million from $137.0 million last year. The increase of $2.6 million in property taxes is offset by a decrease in $2.3 million from PILOT payments as certain properties are no longer participating in a PILOT program and are paying property taxes based on the taxable assessed value of the property. With the addition these additional properties to the full tax levy, the Mayor is able to maintain his policy of controlling taxes, providing tax certainty for commercial businesses and homeowners in an effort to attract more business and residents to the City of Buffalo. The increase of $2.6 million is broken out as an increase of $284,300, or 0.4 percent, for residential properties and $2.3 million, 3.8 percent, for commercial properties. The City's available property tax margin is $49.0 million, representing an increase from the prior year's amount of $41.9 million of $7.1 million, or 14.6 percent. Within the Adopted Budget, the City provides 50.4 percent of the tax levy to the District, which includes the District's debt service, which is equivalent to 7.8 percent of the tax levy, while 17.4 percent of the tax levy is assessed for the City's debt service. From an operational standpoint, the City utilizes 32.2 percent of the levy while the District uses 42.6 percent of the tax levy for operations.

The Adopted Budget will utilize 66 percent of the City's constitutional taxing capacity, a decrease from the 68.9 percent utilized last year. The Administration had planned for a City-wide reassessment of all properties beginning in July 2015, with the entire process taking approximately 12-15 months. Due to a delay in executing the contract as related to the

implementation of a City-wide reassessment, the new taxable assessments would be in effect beginning in 2018-19 as opposed to the original implementation year of 2017-18.
The most significant year-to-year change in the overall budget is the decreased reliance on fund balance resulting from an overall increase in most operating revenue categories; these increases are discussed within the "Estimated Revenues" section of this report. Revenues in total, excluding the use of Fund Balance, are increasing $6.8 million, or 1.4 percent. The City's projected budgetary gap is less than last year due to a projected increase in revenue, which are addressed further in the report.

The City is decreasing its use of fund balance to $10.7 million as compared to $15.0 million last year, a decrease of $4.3 million. The continued use of fund balance as a funding resource to close budgetary deficits is unsustainable, with the use of this representing a depleting resource. It is noted that the Rainy Day Fund does remain intact; a formal Rainy Day Policy related to the use of these funds has not been adopted. 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.

Spending Levels Compared to 2015-16

Compared to the 2015-16 Adopted Budget, adopted City spending is increasing by $2.4 million, or 0.5 percent, over the prior year adopted budget.

The following schedule identifies significant fluctuations in various areas of the budget. The Assessment and Taxation Department and the Mayor and Executive Department are shown discretely due to unique events affecting these departments, namely the City-wide reassessment process and realignment of several operational functions under the Mayor's new initiatives, respectively:

($ in millions)	**2015-16 Adopted**	**2016-17 Adopted**	**Change**	**Explanation**
Police Department	$80.3	$88.3	$8.0	Personal Services $7.5, Services $0.4, Supplies/Utilities $0.2, Capital Outlay ($0.3)
Active Employee Health Insurance	$29.6	$32.4	$2.8	Projected increase $2.8
Pension	$44.2	$45.7	$1.5	ERS ($0.5), PFRS $2.0
Mayor & Executive	$3.5	$5.1	$1.6	Personal Services $1.1, Capital Outlay $0.5
Public Works	$28.4	$29.8	$1.4	Personal Services $1.2, Capital Outlay $0.2
Permits & Inspections	$5.6	$6.5	$0.9	Personal Services $0.4, Services $0.5
Debt Service	$0.1	$0.4	$0.3	Capital Leases ($0.3)
Fire Department	$59.0	$59.2	$0.2	Personal Services ($0.1), Supplies ($0.4), Services $0.2, Capital Outlay $0.4
Injured on Duty Personal Service	$5.0	$5.2	$0.2	Fire Disability Salary $0.2
All Other Charges	$58.0	$58.1	$0.1	Net Other Departments $0.1
Assessment & Taxation	$4.0	$3.6	($0.4)	Services ($0.4)
Transfers Out	$98.7	$98.2	($0.5)	Capital Debt Service Fund ($0.5)
Management Information Systems	$4.4	$3.9	($0.5)	Personal Services ($0.2), Services ($0.2), Capital Outlay ($0.1)
Retiree Health Ins.	$41.6	$36.1	($5.5)	Self-funding savings ($5.5)
All Other Fringe Benefits	$29.1	$21.4	($7.7)	Employer payroll taxes $1.3, Salary Adjustment Line ($9.0)
Total Expenditures	**$491.5**	**$493.9**	**$2.4**	

On a year-to-year basis departmental spending is budgeted to increase by $11.2 million and general charges are budgeted to decrease by $8.8 million, for a net increase in total budgeted expenditures of $2.4 million. It is noted that the City was able to construct a budget that has held many expenditures flat outside of personnel service costs which are increasing departmental expenditures by 5.1 percent. The significant increase in departmental spending is directly related to the recently settled Collective Bargaining Agreements ("CBA's") with the Police Benevolent Association ("PBA") and two recently settled CBA's with Local 264 and Local 2651 which both include retroactive salary adjustments to July 1, 2011. The City is receiving relief in areas such as healthcare, which have seen high levels of growth over the past few years. The City now participates in a self-insured health insurance model, which is expected to reduce the overall growth of costs to the City. Pension costs are being held relatively flat increasing by $1.5 million.

Employer contribution rates, which are provided by the Office of the State Comptroller, have decreased for all tiers of the retirement system. Additionally, all new hires that are not past members of the New York State retirement systems enroll as members of tier 6 which require a reduced contribution from employers as compared to previous retirement tier groups.

The Adopted Budget includes the following special initiatives to help improve the quality of life across the City of Buffalo, as follows:

- $1.5 million for Summer Youth Employment Program;
- $1.1 million for The Buffalo Olmsted Parks Conservancy;
- $895,000 for Grants in Aid, which is an increase of $100,000 on a year-to-year basis:
    - $350,000 cultural and anti-violence grant,
    - $250,000 allocated for Community Centers to offset their gas and electric costs, and
    - Additional cultural investments;
- $500,000 to fund the operation of the Beverly Gray Business Exchange Center;
- $500,000 in funding to equip police officers with iPads;
- $366,500 for various historical and cultural venues across Buffalo including: Buffalo Zoo, Buffalo Place, Kleinhans Music Hall, Buffalo Historical Society, and the Dr. Lords Library;
- $275,000 for the purchase of new digital technology to expedite the building plan review process;
- $250,000 will be allocated to Community Centers to offset their utility costs;
- $200,000 for Say Yes to Education Initiative (current year contribution would be third of a four Year total commitment of $800,000);
- $125,000 in support of a new recycling incentive program;
- $75,000 for Say Yes Scholars for the purchase of 500 tablets;
- $62,000 for the Broadway Market Manager position;
- $50,000 to The Community Foundation of Greater Buffalo to support the Racial Equity Roundtable;
- Funding for the creation of a minority engineer/architect training program and increased resources for the Office of New Americans;
- Thirty clean sweep initiatives planned;
- No increases to any City resident user fees including the garbage fee.

Departmental Budgeted Expenditures

At the departmental level, total budgeted expenditures are projected at $231.6 million, an increase of $11.2 million over last year's adopted budget of $220.4 million, representing an increase of 5.1 percent.

The budget reflects the additional labor costs associated with the settled CBA with the PBA in July 2015 and two recently settled CBA's, in June 2016, with the blue-collar and building inspector unions. These increased costs are offset with lower starting salaries for new employees.

There are differences noted within the various budgeted departments. Of the fifteen City departments, ten are increasing on a year-to-year basis in the amount of $12.6 million. The five remaining departments are decreasing by $1.4 million for a net increase of $11.2 million.

The most significant changes related to the level of departmental budgeted expenditures are within the Police, Mayor and Executive and Public Works Departments which have increased over last year's budgeted amounts by $8.0 million (9.9 percent), $1.6 million (46.9 percent) and $1.4 million (4.9 percent), respectively. The increase within the Police Department is related to the salary increases under the settled CBA which went into effect after the adoption of the 2015-16 budget. The increase in the Mayor and Executive Department is related to the addition of twenty positions, representing a mix of new employees as well as titles and positions being reassigned to this department. The Mayor and Executive Department represent 1 percent of all expenditures. The increase of $1.4 million in the Public Works Department is directly related to the CBA with Local 264, which provides for salary increases to City blue-collar employees.

At this time almost all of the City unions are under a current CBA. The City has incorporated various management tools into the CBA's to improve efficiencies and to control expenditures. Some examples of these management tools include a residency requirement for all new Police and Fire personnel, elimination of health insurance in retirement for new hires, and requiring employee contributions for health insurance. In addition, all contracts have moved beyond the previously typical five steps before an employee reaches their top salary step. All new hires have been moved to an extended schedule that requires at least seven years of service prior to an employee reaching the top step. This results in lower initial salaries for new hires. It is noted the hiring of new recruits in the Police and Fire departments are expected to reduce overall personal service costs with respect to both salaries and overtime.

New recruits begin on the first step of the salary schedule and take several years to achieve the top step; in the Fire Department there are thirteen steps and for the Police Department there are seven steps. In addition to the differences in step salary, overtime is a significant factor in personal service costs since both departments are faced with minimum manning requirements and overtime pays at a rate of time and half. In recent years the City has not been able to bring on additional fire recruit classes and was dependent on using overtime to fill regularly scheduled shifts, and provide minimum coverage; the use of overtime has increased due to the continued decline in the overall number of firefighters. By bringing on new firefighters, the City will be able to reduce fire overtime since fewer shifts will be necessary to be covered and lower step employees may have an opportunity to work the overtime.

Similar expectations are assumed for the Police Department; however, this department may not benefit as significantly in regards to overtime containment since the Police Department currently has 92 vacancies and has not had a new recruit class since they added seven officers from the July 2015 class. Currently the difference between a step one patrol officer and a step-seven patrol officer is $17,300; whereas in the fire department there is a difference of almost $30,000 between a Step B (fire academy graduate) and a Step 13 firefighter.

The remaining top two departments with increasing budgeted expenditures are the Permits and Inspections Department and the Fire Department. The increase of $0.9 million for the Permits

and Inspections Department is the combination of an increase in contract services of $0.5 million and personal services of $0.4 million. Contract services includes the procurement and design of building plan review software ($535,000) and the Lead Education program ($235,000), both representing new policy initiatives of the Mayor. Personal services are increasing due to the recently settled CBA with the Building Inspectors Union Local 2651. The total increase in the Fire Department is minor at $0.2 million, or 0.3 percent, over the prior year budget and is attributed to a decrease in personal service costs ($0.1) due to expected retirements and replacement of those positions with step one firefighters, and is offset by an increase in contract services in the amount of $0.2 million and an increase in Capital Outlay in the amount of $0.4 million.

All Other Departmental Charges are budgeted to decrease by $1.1 million due to additional variances across the remaining departments. The Management Information Systems Department is budgeted at a decrease of $496,071 (11.3 percent), compared to the prior year budget, followed by a decrease in Assessments by $384,890 (9.8 percent), and a decrease in Administration and Finance of $328,425 (3.1 percent). The Law Department and Human Resources Department combine for a year-to-year decrease of $223,907. The decrease is primarily due to the reassignment of positions from these departments to the Mayor and Executive Department and to a lesser extent decreases in services, supplies, and capital outlay.

General Charges

Total General Charges, excluding Interfund Transfers Out, are budgeted at $164.2 million for 2016-17, a decrease of $8.3 million, or 4.8 percent, from the prior year budget of $172.4 million. General Charges include Fringe Benefits, Utilities, Interdepartmental Services, and Debt Service.

The most significant decrease is with respect to Fringe Benefits, which are budgeted at $135.7 million, a decrease of $8.9 million, or 6.1 percent, over the prior year budget. The decrease is driven by several actions, with the most significant action being the elimination of the retroactive salary adjustment line, which is reduced by $9.0 million to $0 in 2016-17. There is also a reduction of retiree health insurance in the amount of $3.9 million, from $39.9 million to $36.1 million; this reduction is due to the City being able to benefit from a full-year of self-insuring for health insurance, as opposed to the savings in the 2015-16 year which is based on three months of savings to date. These decreases are offset by several increases including an increase of $2.0 million for police and fire pension contributions, $1.3 million increase for employer payroll taxes, and $1.1 million for active employee health insurance. All other fringe benefits total a net reduction of $435,100 on a year-to-year basis.

In past years, the City budgeted an amount for future estimated costs of unsettled labor agreements; the amount last year was budgeted at $9.0 million and no amount is budgeted in 2016-17. This amount was not budgeted as a General Charge in 2016-17 due to the settlement or pending settlement of all City labor contracts. Effectively the funds were transferred from the salary adjustment line to the appropriate department to reflect the salary increases.

Pension payments are projected to increase $1.5 million, or 3.5 percent on a net basis. New York State Employee Retirement System ("ERS") contributions are projected to decrease by $0.5

million from $12.2 million down to $11.7 million and the New York State Police and Fire Retirement System ("PFRS") is projecting to increase $2.0 million, from $32.0 million to $34.0 million. The decrease of the ERS contribution is related to the decrease in the required contribution rate. The increase for PFRS is reflective of the increase in salaries for the Police Department as the result of the labor agreement settled in July 2015.

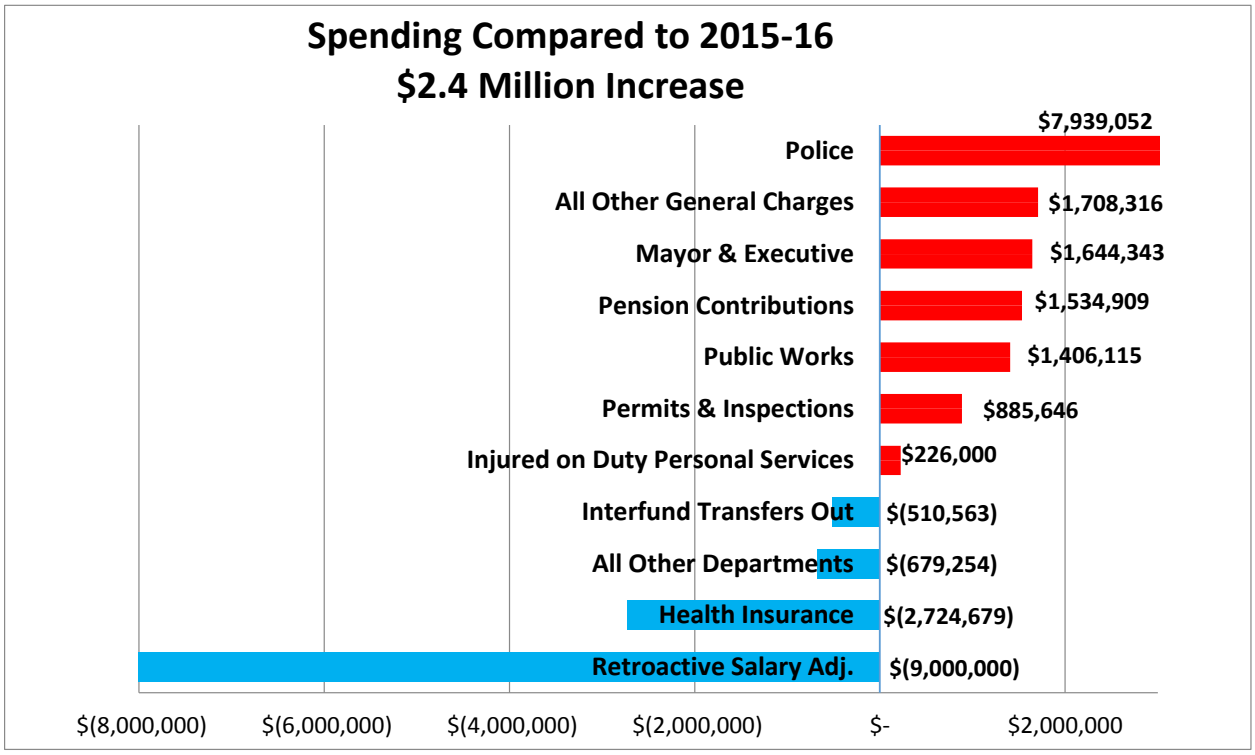
All other general charges (excluding transfers out) are projected to increase by $1.7 million, or 1.0 percent. The largest pieces of the increase is related to employer payroll taxes, which were previously discussed. Additional fluctuations include an increase for personal services related to Injured-on-Duty Claims of $226,000. These employees are firefighters that have been injured on duty and were not transferred into the New York State disability/retirement program within the allotted time and are now required to be paid a disability salary by the City until they reach the required retirement age of 72. In addition there is an increase in Debt Service payments ($278,300), Grants in Aid ($100,000) while all other budgeted amounts in All Other General Charges, including Utilities, are held flat on a year-to-year basis or reduced on a year-to-year basis.

Other Financing Uses

As previously noted, Operating Transfers Out have decreased by $0.5 million on a year-to-year basis, due to a decrease in total principal and interest due on outstanding debt.

Summary of Budgeted Expenditures

The following chart depicts the year-to-year change in budgeted expenditures for the categories as discussed above:



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 84 percent of the City's General Fund expenditures exclusive of transfers. The City's employee related costs average between 84-87% of total operational costs annually. The 2016-17 Adopted budget includes $331.8 million in direct salary and fringe benefit costs, which in total are minimally increasing by $1.7 million, or 0.5 percent, over the amount budgeted in 2015-16 of $330.1 million. The increase is reflective of several actions, leading to the overall net increase. Personal services representing salaries and wages are increasing $10.6 million to $196.2 million from the 2015-16 budget amount of $185.6 million, which represents an increase of 5.7 percent. As previously noted, the majority of this increase is for the settlement of the police contract and the pending contract for blue collar employees and building inspectors. This increase is offset by a decrease in fringe benefits due to several reasons including a decrease in health insurance of $2.7 million, or 3.8 percent, the elimination of the salary adjustment line in the amount of $9.0 million, an increase for pension contributions of $1.5 million, or 3.5 percent, and an increase of $1.3 million for employer payroll taxes.

The Adopted Budget includes an increase of twenty-nine FTEs as compared to the 2016 adopted budget, which will be further discussed in detail in the staffing section of this report.

With respect to public safety, personal service ("PS") costs for the Police Department are projected to increased $7.5 million (9.9 percent) on a net basis; it is noted these costs are for primarily the uniformed officers but also include the civilians that work within the department. The driving force behind the increase is the impact of the settled CBA with the PBA that occurred in July 2015. Both annual salary and overtime are projected to increase $4.8 million and $2.4 million respectively. In addition, longevity is increasing $208,000 and court time is increasing $100,000 due to the increased salary rates. All other salary lines within the police department are increasing by $13,700 on a net basis.

The City is planning two distinct Police recruit classes to fill a projected number of 95 vacancies, to offset ongoing attrition. The City has scheduled a Police Officer exam on June 18, 2016, to begin the recruiting process. As part of the Mayor's Police Academy Initiative in 2015-16, the City is expecting to begin the first class of 50 recruits in November 2016. For those that participated in the academy this past year, and are reachable on the civil service list, training will be finalized beginning in November. This approach should eliminate at least four months of academy training and move the officers into the field by the end of January 2017. The City is projecting to start a second class of 45 recruits in January 2017, and they should be assigned to their respective districts by July 2017.

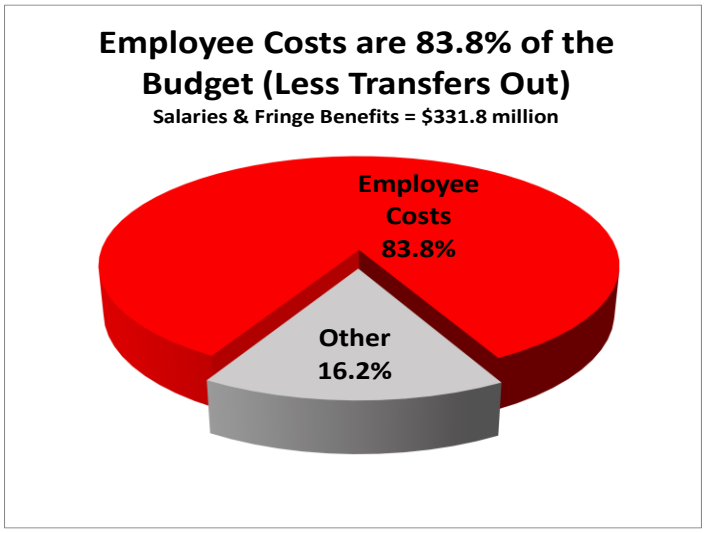
The City has budgeted $12.5 million for Police overtime for 2016-17. Overtime was budgeted at $10.0 million for the 2015-16 fiscal year and is projected to be $14.1 million for the year ending June 30, 2016. Overtime has historically been under budgeted and is funded largely through vacancies.

The Fire Department's personal service costs, which includes both firefighters and civilian workforce, are essentially held flat with a minor decrease of $112,400 in total. The Fire Department has nearly filled all of the vacant positions. The City is able to maintain flat personal service costs from year-to-year due to the new firefighters coming in at a lower salary step then those that have recently retired. Annual salaries are decreasing by $0.4 million, overtime is increasing by $0.1 million and the perfect attendance incentive is increasing by $157,200. All other costs for the Fire Department are increasing on a net basis by $17,900.

Policies for controlling overtime and sick leave use have been implemented and have thus far proven insufficient in reducing related expenditures, as overtime costs for the Fire Department are $5.7 million as of March 31, 2016, and are projected to exceed budget by $2.5 million by June 30, 2016; the amount budgeted for overtime was $5.1 million for 2015-16. The projected year-end amount of $7.6 million is $2.5 million over the adopted budget. The City anticipated that overtime costs could be more effectively managed through changes to the labor agreement which provides direction for changes in how staffing shortages are addressed. However, those changes have not translated to a decrease in overtime.

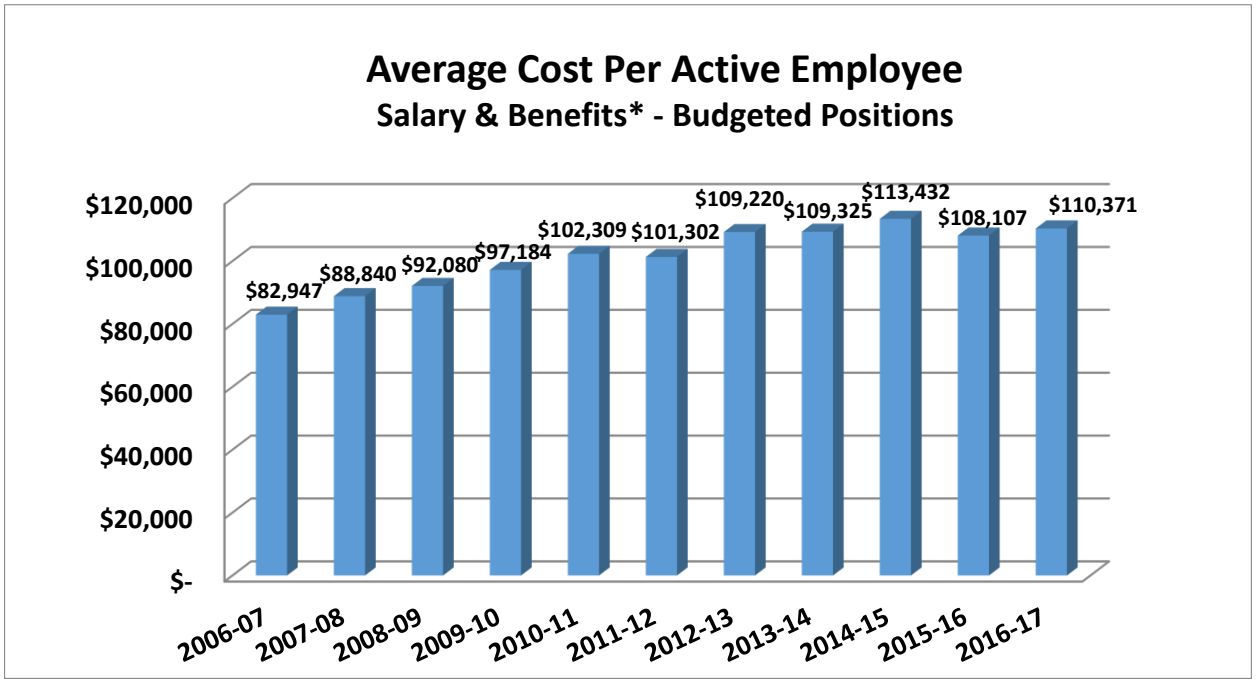
On a year-to-year basis (FY 2016 to FY 2017), the City is increasing budgeted overtime for the Police Department in the amount of $2.4 million and for the Fire Department by $0.1 million, for a total of $12.5 million and $5.2 million respectively. Overtime continues to be an area of concern as it appears to be under-budgeted. Currently, the City is using the budgeted savings from departmental vacancies to offset this overage.

The following chart demonstrates the percentage of the total budget less transfers out that is comprised of employee costs:



In fiscal year 2017, total budgeted employee costs total $331.8 million and represent 83.8 percent of all expenditures, excluding transfers. All other expenditures including services, supplies, capital outlay and travel comprise the remaining 16.2 percent or $63.9 million. The City's personnel costs have increased annually with fringe benefits increasing at alarming rates, specifically pension contributions and health insurance premiums have been the cost-drivers. In

FY 2006-07 actual employee costs totaled $233.4 million, while in the 2016-17 Adopted Budget employee compensation costs have grown to $331.8 million, an increase of $98.4 million (42.1 percent) over the last ten years. More specifically, employees' salaries and compensation have increased from $145.7 million to $196.2 million, or $50.5 million (34.7 percent) over that time, while fringe benefits have increased from $87.8 million to $135.6 million or $47.9 million (54.6 percent). Previously it has been the fringe benefits that have increased the annual costs; in 2016-17 employees' salaries are projected to increase more than fringe benefits by $19.5 million, which is reflective of the City settling labor contracts over the past two years.



***Eliminates retiree health insurance from total PS costs.**

In 2006-07 the average budgeted cost per employee was $82,947, which included salary and fringe benefits (excluding retiree health insurance). For the upcoming 2016-17 fiscal year, the average budgeted cost per City employee will have grown to $110,371, an increase of $27,424 or 33.1 percent, since 2006-07. The figures above exclude retiree health insurance costs, in order to reflect the total cost per active employee.

The budgeted amount in 2016-17 for health insurance for retirees is $36.1 million, a decrease of $3.9 million (9.6 percent) from the prior year. The chart below provides a ten-year history of health insurance costs incurred by the General Fund of the City as compared to the budgeted amounts for both 2015-16 and 2016-17. Health insurance is budgeted to increase by $16.1 million (30.7 percent) over the actual levels in 2006-07. The actual increase from 2007 to 2015 was $18.5 million, or 35 percent. The projected year-to-year decrease of $2.7 million or 3.8 percent is attributed to the City becoming self-insured for health insurance. It is noted that the City, by being completely self-insured for health insurance and prescription drug coverage, has purchased a stop-loss insurance policy that will mitigate the exposure to the City for unpredictable and high cost claims.

Health Insurance											
	ACTUAL									Budgeted	
FYE	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Active	$ 24.9	$ 25.6	$ 28.2	$ 30.1	$ 29.2	$ 29.7	$ 28.4	$ 28.6	$ 28.8	$ 29.6	$ 32.4
Retiree	$ 27.5	$ 29.7	$ 30.9	$ 33.0	$ 31.8	$ 36.7	$ 38.0	$ 41.2	$ 42.1	$ 41.6	$ 36.1
Total	**$ 52.4**	**$ 55.3**	**$ 59.1**	**$ 63.1**	**$ 61.0**	**$ 66.4**	**$ 66.4**	**$ 69.8**	**$ 70.9**	**$ 71.2**	**$ 68.5**

Staffing Levels

The 2016-17 budget includes a net increase of twenty-nine positions from the 2015-16 budget. The most significant change from last year is the addition of twenty positions in the Mayor & Executive Department and the reduction of six positions in the Law Department. The following table shows budgeted staff changes within the various departments from the adopted 2015-16 budget to the adopted 2016-17 spending plan:

	2015-16 Budget	2016-17 Adopted	Change	2015-16 3rd Quarter Filled	Variance to Proposed 2016-17 Budget
Animal Control & Shelter	15	15	0	13	(2)
Assessment & Taxation	33	33	0	24	(9)
Audit & Control	49	49	0	45	(4)
Budget	8	8	0	6	(2)
City Clerk	18	20	2	18	(2)
City Council	36	38	2	36	(2)
Community Services	34	36	2	28	(8)
Division of Buildings	64	65	1	53	(12)
Engineering	75	78	3	58	(20)
Fire (Non-Uniform)	45	45	0	39	(6)
Fire (Uniform)**	719	722	3	665	(57)
Forestry	6	6	0	6	0
Human Resources	20	20	0	16	(4)
Law	44	38	(6)	31	(7)
Mayor & Executive	54	74	20	55	(19)
MIS	33	31	(2)	28	(3)
Parking	45	45	0	33	(12)
Parks	35	35	0	32	(3)
Parks Admin.	3	3	0	3	0
Permits & Inspections	93	93	0	84	(9)
Police (Non-Uniform)	212	214	2	182	(32)
Police (Uniform)*	801	801	0	709	(92)
Public Works (Gen Office)	3	5	2	3	(2)
Purchase	31	32	1	25	(7)
Recreation	20	20	0	19	(1)
Sanitation & Streets	137	137	0	129	(8)
Telecommunications	2	1	(1)	2	1
Treasury & Collections	17	17	0	13	(4)
Total	**2,652**	**2,681**	**29**	**2,355**	**(326)**

* **Uniformed Police** positions are budgeted at 801, and are held flat with the 2015-16 budget. The Adopted staffing number reflects the net effect of different actions. First, while 801 positions were budgeted in 2015-16, current-year attrition has left the uniform police with 709 filled positions as of the end of the current year's third quarter, which is a decrease of 21 FTE's compared to the FY 2015 third quarter count of 730 FTE's. The City expects this number to decline further through the remainder of the current year due to retirements. Additionally, the City intends to hire 95 uniformed police personnel during 2016-17, with two recruit classes projected. There is a projected loss of an additional 30 uniformed police officers due to retirement next fiscal year. Taken together, it is therefore improbable the City will staff 801

uniformed Police positions in 2016-17 with a more realistic expectation of 730-750 uniformed police officers on the force by the end of FY 2016-17.

** **Uniformed Fire** positions were budgeted at 719 in the 2015-16 fiscal year and are budgeted to increase to 722 in 2016-17. Staff increases include a third Deputy Commissioner to be responsible for communications, as well as two Captains to be assigned to the Emergency Dispatch/Alarm office. Current year attrition has reduced the size of the force to 665 compared to 594 as of the end of the 2014-15 third quarter, which is an increase of 71 FTE's. The City is estimating an additional 35 retirements during the 2016-17 fiscal year and is planning on bringing on an additional 50 FTE's in 2016-17. It is unlikely the City will staff the full number of budgeted uniformed Fire positions in 2016-17 and will most likely end the 2017 FY with between 650-680 uniformed firefighters depending on the number of recruit classes the City will be able to move through the Fire academy next year and bring online to fill the vacancies throughout the department. If the administration is aggressive in the number of academy classes, it could potentially have the fire department up to its full complement by the end of 2017, as they did at the beginning of 2015-16.

On a year-to-year basis, the number of employees is increasing by twenty-nine FTE's on a net basis. The increase of twenty FTE's in the Mayor and Executive Department is reflective of the Administration's organizational restructuring, bringing certain functions under the umbrella of the Executive Department; ten out of the twenty positions are being reassigned from other departments including the six from the Law Department for traffic adjudication, with the remaining four positions being moved from the Office of Telecommunications and MIS. The remaining ten positions are new positions that are to be filled to promote and support the Mayor's policy and agenda, including a communications team, which will be tasked with managing the Administration's social media and web content to name a few of the additional responsibilities tasked to them.

The following schedule provides a summary of the composition of the fire and police forces as of March 2016 summarized according to pension tier, average age, average years of service, median age and median years of service. As noted below, the largest pension tier is Tier 2 with a combined 1,005 FTE's. On average most protective service employees retire after 20-25 years of service.

Fire	# FTE's	Average Years of Service	Average Age	Median Age	Median Years of Service
Tier 1	1	45.5	70.9	70.9	45.5
Tier 2	458	21.1	50.3	51.2	19.9
Tier 3	16	6.8	37.7	36.4	6.6
Tier 5	52	5.3	37.7	36.0	5.0
Tier 6	139	1.8	32.4	31.5	0.9
Total Count	666	15.5	45.3	47.2	18.0

Police	# FTE's	Average Years of Service	Average Age	Median Age	Median Years of Service
Tier 1	2	37.7	63.0	63.0	37.7
Tier 2	547	19.4	47.9	49.1	19.4
Tier 3	2	6.7	38.6	38.6	6.7
Tier 5	43	4.4	32.9	32.0	4.2
Tier 6	101	2.4	32.2	31.6	2.2
Total Count	695	16.0	44.8	46.7	17.7

Estimated Revenues

The Adopted Budget includes an increase in estimated revenues and other financing sources of $2.4 million, or 0.5 percent, over the 2015-16 budget. The following table shows the differences by major category:

($ in millions)	**2015-16 Adopted**	**2016-17 Adopted**	**Change**	**Explanation**
Taxes	$148.4	$149.9	$1.5	Tax Levy $2.8, Mortgage Tax $0.9, PILOTs ($2.3)
Non-Property Tax	$13.1	$13.2	$0.1	No significant fluctuations
Licenses & Permits	$4.7	$5.3	$0.6	Building Permit $0.2, Encroachment Permit $0.1, All Other Permits $0.3
Intergovernmental	$255.2	$256.6	$1.4	Medicare Part D $0.9, Tribal State Compact $0.6
Fines	$12.3	$11.9	($0.4)	Local Traffic Adjudication ($0.8), Parking Tags $0.2, All Other Fines $0.2
Service Charges	$14.2	$15.6	$1.4	Rental Dwelling Fee $0.3, Parking Meters $0.3, Special Event Fee $0.2, Building Application Fee $0.2, All Other Fees $0.4
Interest	$0.8	$0.8	$0.0	No change
Miscellaneous	$14.6	$16.9	$2.3	Grant Reimbursement $0.8, Cash Refund PY $0.5, Court Facility Aid $0.2, Sale of Capital Assets & Land $0.3, In Rem $0.2, All Other $0.3
Transfers In	$13.1	$13.1	$0.0	No change
Total Revenue	**$476.5**	**$483.3**	**$6.8**	**Net Revenue increase $6.8**

Revenues are projected to increase $6.8 million, or 1.4 percent. Significant fluctuations noted in the revenue categories, as demonstrated in the table above, are discussed below.

The largest single increase is for Miscellaneous revenue which is budgeted to increase $2.3 million (15.8 percent). The specific balance varies widely from year-to-year depending on what transactions are planned for that particular year. The City is estimating an increase of $0.8 million in grants from the State, an increase in the sale of capital assets of $0.3 million, an increase in in-rem sales of $0.2 million, a refund of $0.5 million related to the street light audit, and $0.2 million in additional court facility aid related to maintenance and capital improvements at the court facility. There are no other unusual or large fluctuations noted from the prior year.

Taxes are projected to increase by $1.5 million year-to-year with projected real property taxes increasing $2.8 million, mortgage tax increasing $0.9 million, and PILOTs decreasing by $2.3 million. The increase in real property taxes and the decrease in PILOTs are interconnected, in that the properties being retired from PILOTs are part of the overall tax levy.

Intergovernmental funds are projected to increase from $255.2 million to $256.6 million, an increase of $1.4 million. The overall increase in this category is minor and is attributed to an increase for Medicare Part D reimbursement in the amount of $0.9 million and an increase for revenues from the Tribal State Compact of $0.6 million which is projected based on prior-year growth and the fact that casino is in the process of a $40.0 million expansion. Sales tax of $82.8 is being held flat year-to-year due to the overall stagnation of sales tax growth since January 2015. Once again, State AIM is being held flat at $161.3 million per the New York State budget.

Service Charges are projected to increase by $1.4 million, with multiple service lines projecting increases; the increase is attributed to both an increase of fees (e.g., the rental dwelling fee) and an assumption of increased service request volume. Rental Dwelling Fee is increasing by $0.3 million, which is attributed to the higher fee structure for multi-unit buildings, and collections from parking meters is projected to increase by $0.3 million as well. The special event fee is projected to increase by $0.2 million as is the building application fee, and all other fees are a net increase of $0.2 million.

Fines are budgeted to decrease on a year-to-year basis by $0.4 million to $11.9 million and represent an area that should be monitored closely. The City is projecting a FY 2015-16 budget deficit in this category of $3.7 million, which is due largely to the delay in revenues from the traffic adjudication process in the first year of implementation. Revenues from traffic fines alone are budgeted at $4.2 million. Due to the wide year-to-year variance, we recommend this area be closely monitored and adjustments made to the budget as necessary.

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 $10.7 million. On a year-to-year basis, the reliance on fund balance has decreased by $4.3 million. The City has adequate levels available to fund the budget gap for 2016-17. It is noted that the Rainy Day Fund does remain intact.

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.

Enterprise Funds

In addition to the general fund revenues and expenditures that were discussed, it is important to include the City's Enterprise Funds when discussing the health of the City's finances. An Enterprise Fund by definition is a fund that provides services to the public for which fees are collected and are intended to fund a significant portion of operations. The City has three major

enterprise funds which include the Parking Fund, Solid Waste and Recycling Fund and the Water Fund.

The Solid Waste and Recycling Fund has continued to incur an annual operating deficit that the City's General Fund is ultimately liable for. The City continues to budget a transfer of $3.2 million in 2016-17 to the Solid Waste and Recycling Fund to assist in the support of its operations. The cumulative deficit in the fund is $33.6 million; of this amount, $17.4 million represents a long-term loan from the General Fund and is reported as nonspendable fund balance within the General Fund. To address the ongoing operational deficit, the City has prepared and issued a Request for Proposal to privatize the services as provided by the Solid Waste and Recycling Fund; the City is awaiting responses. The City will evaluate the repayment of the long-term receivable upon making a determination regarding the privatization of such services.

The Parking Fund is in good fiscal standing and continues to subsidize General Fund operations. The budgeted transfer for FY 2017 is $8.4 million which is an increase of $1.9 million compared to FY 2016 amount of $6.5 million.

To provide a more accurate review of the Enterprise Funds, it is recommended that the City expand upon the detail made available for each fund, including assumptions such as staff count and discretely break out payroll and fringe benefits.

2016-17 Budget Summary

In total, the City has budgeted appropriations of $493.9 million for FY 2016-17, representing a budgetary increase of $2.4 million, or 0.5 percent, over the prior year. Of this total, departmental spending is budgeted to increase $11.2 million and is largely a reflection of salary and wage increases from recently settled or pending labor agreements. This increase is offset by a decrease in fringe benefits for health insurance for retirees ($5.5 million) and the offset against the salary accrual/adjustment line for the settlement of labor agreements. The City has historically underbudgeted overtime and the 2016-17 Adopted Budget is indicative that this area is again underbudgeted. Vacancies have funded this area in the past and will continue; we recommend this area be closely monitored as these costs can quickly escalate.

The City has estimated revenues of $483.3 million for FY 2016-17, which is an increase of $6.8 million, or 1.4 percent, over the prior year. The significant revenue sources of City taxes, State aid and sales tax are largely held flat from year-to-year and increase in total by $1.5 million. The remaining increase in revenues is in the areas of fines, service charges and miscellaneous revenues. These areas are inherently more difficult to budget as they are largely predictive; this combined with the fact that the City has had actual results under budget for the past few years and is projecting to be under budget for this fiscal year results in an overall concern that these areas are overestimated. We recommend the City closely monitor these areas and modify the budget and/or Financial Plan as necessary. The next section discusses the Financial Plan in more detail.

OVERVIEW OF THE ADOPTED 2017-2020 FINANCIAL PLAN

The following is the analysis of the City of Buffalo's Four-Year Financial Plan. The Mayor submitted the City of Buffalo's 2017-2020 Financial Plan ("Financial Plan") to the Common Council and the Buffalo Fiscal Stability Authority ("BFSA" or "Authority") on April 29, 2016. This section of the 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, and projected use of fund balance:

2017-2020 Financial Plan

	2016-17	2017-18	2018-19	2019-20	Total
Total Revenues	$ 483.2	$ 485.1	$ 496.1	$ 499.6	$ 1,964.0
Total Expenditures	$ 493.9	$ 495.1	$ 500.2	$ 505.5	$ 1,994.7
Baseline Deficit	$ (10.7)	$ (10.0)	$ (4.1)	$ (5.9)	$ (30.7)
Fund Balance	$ 10.7	$ 10.0	$ 4.1	$ 5.9	$ 30.7
Remaining Budgetary Gap	$ -	$ -	$ 0.0	$ 0.0	$ 0.0

The City's 2017-2020 Financial Plan projects a baseline deficit totaling $30.7 million, which represents the excess of projected expenditures over estimated revenues. The City is funding the baseline deficit in each year of the Financial Plan with the use of unassigned fund balance. It is noted that this planned use of fund balance will reduce the available amount down to approximately $15.1 million. The use of unassigned fund balance is the last resource that is drawn upon and only after current year expenditures exceed current year revenues. It is not a revenue source, but a funding source, and therefore is nonrecurring. As of June 30, 2015, $43.4 million of unassigned fund balance was available. This source of funding is not repetitive and is based on an accumulation of all years prior. The City has relied on the use of fund balance for the submission of a balanced financial plan for many years while enacting a conservative budget; such conservative budgeting practices has allowed the City to maintain its reserves at a fiscally prudent level while maintaining its Rainy Day Fund.

The available fund balance excludes the Rainy Day Fund which may be used for unforeseen circumstances, such as unanticipated revenue shortfalls (i.e., a mid-year reduction of New York State Aid) or unexpected expenditures. As of June 30, 2015, $37.2 million was reported in the Rainy Day Fund. The amount to be held in this fund is determined annually based on year-end expenditures and represents a minimum of thirty days of the prior fiscal year's total general fund operating expenditures. As such, each year the City has an increase in total general fund expenditures, the City will also increase the Rainy Day Fund.

Revenues:

Total revenues are estimated to increase $16.4 million over the four years of the Financial Plan, or 3.4 percent. On an annual basis revenues are projected to increase annually ranging between 0.4 to 2.25 percent.

Revenues, excluding Operating Transfers In, are estimated to increase $15.5 million over the four years of the Financial Plan, representing a total increase of 3.3 percent. The reasons for such fluctuations are addressed below. The following table provides a summary of the City's estimated projected revenue over the course of the Financial Plan.

	2016-2017 Recommended Budget	2017-2018 Projection	2018-2019 Projection	2019-2020 Projection	Four-Year Increase/(Decrease)	
	Financial Plan					
REVENUE					$	%
Taxes	149,875,350	151,735,565	156,191,831	158,900,280	9,024,930	6.0%
Non Property Taxes	13,175,000	13,175,000	13,175,000	13,175,000	-	0.0%
Licenses and Permits	5,278,405	5,383,966	5,491,637	5,601,463	323,058	6.1%
Intergovernmental	256,640,833	261,441,218	263,634,395	265,851,634	9,210,801	3.6%
Service Charges	15,572,274	15,631,149	15,809,830	15,997,146	424,872	2.7%
Fines	11,891,500	12,065,940	12,343,449	14,525,084	2,633,584	22.1%
Interest	750,000	750,000	750,000	750,000	-	0.0%
Miscellaneous	16,947,015	10,643,639	13,874,834	10,788,107	(6,158,908)	-36.3%
Subtotal	**470,130,377**	**470,826,476**	**481,270,975**	**485,588,713**	**15,458,336**	**3.3%**
Operating Transfers In	13,134,239	14,309,297	14,794,008	14,009,155	874,916	6.7%
TOTAL BUDGET	**483,264,616**	**485,135,773**	**496,064,983**	**499,597,867**	**16,333,252**	**3.4%**

Key baseline assumptions and significant changes over the Financial Plan are addressed below.

Intergovernmental revenue is projected to increase by $9.2 million, or 3.6 percent, over the Financial Plan. Included within this category is New York State Aid and Incentives to Municipalities ("State AIM"), which is estimated at $161.3 million in 2016-2017 and increases to $166.2 million by 2019-2020, an increase of $4.9 million. The City budgeted for State AIM in 2016-2017 in an amount consistent with the New York State budget and has applied a 2 percent growth to State AIM in 2017-18, and then a growth of 0.5 percent in the following two fiscal years. While New York State (the "State") has included a minimal overall increase in State AIM of approximately 1.0 percent within the State's Financial Plan over the same time period specifically for grants for local municipal consolidations and efficiency projects, it is noted that the State's Financial Plan includes a 0% increase for State AIM, for the Big Four Cities, which include Buffalo, Rochester, Syracuse, and Yonkers.

City management has taken the position that it is unlikely the State will be able to continue to hold State AIM at a flat level due to the economic challenges faced by the Big Four Cities and has

therefore projected moderate annual increases. The State has not increased its annual State AIM award to the City since FY 2011. The State AIM increases included in the three out years of City's Financial Plan total $4.9 million, 3.0 percent, over the life of the Financial Plan. At this time, there is no indication that the State will provide additional revenue either through AIM or another revenue program. Therefore, at this time this additional revenue is deemed speculative.

Sales tax is also included within Intergovernmental revenue. Sales tax revenue is budgeted at $82.8 million in FY 2016-17, which is held flat compared to the 2015-16 budgeted amount. Actual current year projections, $79.4 million, are below budget by $3.4 million, or 4.3 percent. The City has included projected sales tax increases of 1.5% annually over the remaining three-years of the Financial Plan, to $86.8 million by FY 2019-20. The four-year increase for sales tax is projected to be $4.0 million, or 4.8%. Projecting any growth at this time could be potentially speculative; we recommend the City continue to monitor receipts and adjust the budget and financial plan as necessary.

Taxes are projected to increase $9.0 million, or 6.0% percent, over the Financial Plan from $149.9 million to $158.9 million. The most significant projection is the increase in the real property tax levy, which accounts for $8.4 million of the increase. Beginning in fiscal year 2016-17, the real property tax levy combined with the STAR program revenue is projected to increase from $139.6 million in FY 2016-17 to $148.0 million in FY 2019-20; the three-year increase is approximately $8.4 million. The other significant increase is in Payments-Made-in-Lieu-of-Taxes ("PILOTs"), which is projected to increase $542,000, or 16.9 percent. The increase in the real property tax levy will not exceed the real property tax cap as established by New York State. It is further noted that there is a plan for a full City-wide tax reassessment process which was to begin in 2015-16 but has been delayed by at least a year, moving the reassessment impact at this time out to 2018-19.

Fines are projected to increase by $2.6 million over the course of the Financial Plan, which represents an increase of 22.2 percent. The projected growth is largely driven by the Administration's ability to adjudicate traffic violations locally, keeping the revenue from fines as City revenue as opposed to remitting the collections to the State. Revenue to date has not materialized at budgeted levels due to two main factors, the first one being the delay in implementation of the traffic adjudication program, the second being the delay of collecting the fines which lags approximately 4-6 months after the initial ticket is issued. The estimated amount for traffic adjudication revenue for FY 2017 and FY 2018 is $4.2 million, which increases to $4.4 million in FY 2019 and increases to $6.4 million in FY 2020. The other notable increase under Fines is an increase of the parking tags fines and penalties, which are increasing $404,000, or 6.1%, over the Financial Plan; this increase is driven by an increase in the fines assessed for parking violations.

Non-property taxes, consisting of utility taxes, foreign fire insurance, and cable franchise taxes are projected to remain flat over the four-year period at $13.2 million. This is an area that will need to be monitored, in particular with respect to the Class I Utility Tax that is projected at $9.5 million annually. In past years the City has been aggressive with the Class I Utility Tax and has not received the revenue as projected. The driver to this variance is attributed to more customers moving away from a traditional land-line telephone to cell phone usage. The City does not have a

utility tax in place on cellphones similar to one that it does on landlines, and has Adopted legislation in Albany to include cellphones, but it is unlikely to materialize in the near future. In 2014-15, the City did have a positive budgetary variance of $700,000 with a final amount collected of $10.2 million. As noted, the City has maintained the budgeted amount of $9.5 million.

Service Charges are budgeted at $15.6 million for 2016-17 and are projected to increase by $424,900 over the Financial Plan. The Mayor has committed to no increases on various user and resident fees. The service fee received from the Buffalo Municipal Housing Authority (the "BMHA") for the provision of police services at the BMHA's properties has been maintained at a flat rate of $650,000 annually in the Financial Plan. The single largest increase is projected in services provided to the Buffalo Sewer Authority, which will provide the City with an additional $347,500 by the end of the Financial Plan. The other significant increase is $50,000 for the Special Event fee as it is expected that fewer waivers will be granted.

Licenses and Permits are projected to increase $323,100 over the life of the Financial Plan, increasing from $5.3 million in 2016-17 to $5.6 million in 2019-20. The projected revenue for 2015-16 is $4.3 million as compared to the budgeted amount of $4.7 million for the same time period. The shortfall is attributed to a lower volume of building permits and engineering street permits which were both less than originally budgeted for. Both have shown significant growth compared to prior years. We recommend the City continue to monitor this revenue source and adjust the budget and/or financial plan on a timely basis, as necessary.

Miscellaneous revenue is projected to decrease by $6.2 million from $16.9 million to $10.8 million over the course of the Financial Plan, which is a 36.3 percent reduction. The decrease in revenue is directly attributed to the City's projected sale of real estate and capital assets, which is budgeted at $8.2 million for 2016-17, and then projected to be $1.8 million in FY 2018, $5.0 million in FY 2019, and decreases again to $1.8 million in FY 2020. The projected revenue of $8.2 million is reasonable for the sale of capital assets based on the list of such properties and related valuations of the properties. Approximately $2.0 million of sales are pending and will be completed in FY 2016 due to timing of the process, with the balance of projected property sales occurring in FY 2017. The City has also identified an additional $5.7 million of properties that are beginning the process for sale. With respect to the remaining years of the Financial Plan, most revenue lines are held flat, except for the sale of properties, which is projecting to sell a parking ramp in fiscal year 2018-19.

Interest revenue is flat over the life of the Financial Plan at $750,000, and is decreased by $50,000 compared to the amount budgeted for FY 2015-16, which is $800,000. This amount is not significant to the overall Financial Plan.

The City has budgeted an increase in Operating Transfers In over the course of the Financial Plan which are budgeted at $13.1 million in 2016-17 and increase by approximately $875,000, or 6.7 percent. Operating Transfers In increase to $14.3 million in FY 2018, increase to $14.8 million in FY 2019, and decrease to $14.0 million in FY 2020. The transfer from the Parking Fund in FY 2017 is $6.2 million which decreases to $6.1 million by FY 2020. In addition to reliance on the operating surplus generated by the Parking Fund, In subsequent years of the Financial Plan (years

2018 – 2020), the amount of the annual surplus budgeted to be transferred by the Parking Fund fluctuates from $7.1 million in FY 2018, increasing to $7.2 million in FY 2019, and decreasing down to $6.1 million in FY 2020. The decrease in revenue is attributed to the projected sale of one of the City ramps. The sweeping of surpluses from the Parking Enterprise Fund to the General Fund was a significant change in policy that began in the fiscal year ending June 30, 2013.

Additional Operating Transfers In include funds from the Water Board, increasing from $6.3 million in FY 2017 to $7.3 million in FY 2020, an increase of $987,000, or 15.8 percent. The transfer from the Refuse & Recycling Fund, which is held flat at $673,100 over the Financial Plan and the transfer in from the Capital Project Fund has been eliminated in each year of the Financial Plan; the amount was budgeted at $1.3 million in FY 2015.

Expenditures:

Overall, expenditures are projected to increase from $493.9 million in 2016-17 to $505.5 million in 2019-20, for a total of $11.6 million (or 2.3 percent).

Expenditures are broken down into three major categories for purposes of the City's four-year Financial Plan and include departmental spending (projected to increase $7.0 million, or 3.0 percent, over the Financial Plan) general charges (projected to increase $5.5 million, or 3.4 percent, over the Financial Plan) and transfers out (projected to decrease $0.9 million, or 0.9 percent, over the Financial Plan).

DEPARTMENTS	2016-2017 Adopted Budget	2017-2018	2018-2019 Projection	2019-2020	Four-Year Increase/(Decrease)	
	$	$	$	$	$	%
Common Council	2,180,568	2,173,988	2,211,687	2,250,141	69,573	3.2%
City Clerk	2,679,990	2,679,861	2,700,112	2,720,752	40,762	1.5%
Mayor & Executive	5,118,405	5,084,753	5,170,036	5,256,969	138,564	2.7%
Audit & Control	3,427,225	3,490,761	3,555,548	3,621,604	194,379	5.7%
Law	3,890,513	3,605,636	3,658,208	3,711,832	(178,681)	-4.6%
Assessment	3,566,002	3,558,827	3,623,486	3,689,408	123,406	3.5%
MIS	3,892,794	3,381,856	3,431,680	3,482,383	(410,411)	-10.5%
Administration & Finance	10,373,634	9,916,533	10,016,494	10,117,955	(255,679)	-2.5%
Parking	3,022,667	2,841,553	2,881,154	2,921,497	(101,170)	-3.3%
Police	88,261,211	89,463,987	90,766,779	92,073,923	3,812,712	4.3%
Fire	59,200,708	59,485,645	60,593,731	61,710,507	2,509,799	4.2%
Human Resources	5,386,160	4,565,854	4,612,113	4,659,071	(727,089)	-13.5%
Public Works	29,783,871	30,532,639	31,002,372	31,490,824	1,706,953	5.7%
Community Services	4,288,869	4,214,223	4,275,383	4,337,554	48,685	1.1%
Permits & Inspections	6,497,474	6,286,520	6,393,908	6,503,444	5,970	0.1%
TOTAL Departmental	**231,570,091**	**231,282,636**	**234,892,691**	**238,547,864**	**6,977,773**	**3.0%**
GENERAL CHARGES						
Grants In Aid	895,000	795,000	795,000	795,000	(100,000)	-11.2%
Misc. Utilities	17,750,000	17,767,525	17,785,068	17,802,628	52,628	0.3%
Misc. Services	1,566,500	1,566,500	1,566,500	1,566,500	-	0.0%
Misc. Other	2,700,000	2,700,000	2,700,000	2,700,000	-	0.0%
Fringe Personal Services	5,226,000	5,330,520	5,437,130	5,545,871	319,871	6.1%
Fringe Benefits	135,664,189	137,645,341	139,394,934	141,178,728	5,514,539	4.1%
Debt Service	390,316	112,000	112,000	112,000	(278,316)	-71.3%
TOTAL General Charges	**164,192,005**	**165,916,886**	**167,790,632**	**169,700,727**	5,508,722	3.4%
Interfund Transfers Out	**98,178,812**	**97,936,251**	**97,496,117**	**97,258,383**	**(920,429)**	**-0.9%**
TOTAL BUDGET	**$ 493,940,908**	**$ 495,135,773**	**$ 500,179,440**	**$ 505,506,974**	**$ 11,566,066**	**2.3%**

Total departmental expenditures are projected to increase from $231.6 million for FY 2016-17 to $238.5 million for FY 2019-20, representing an increase of $7.0 million, or 3.0 percent. The increase over the Financial Plan is reflective of the increase of twenty-nine new FTE's and recently settled CBA's. These labor cost increases impact every City department.

Individually, significant fluctuations are noted within the Police Department, Fire Department, and the Division of Public Works. The Police Department is projected to increase by $3.8 million or 4.3 percent, and is reflective of the recently settled CBA, which was finalized and approved by the Common Council in July 2015. The Fire Department is projected to increase by $2.5 million, or 4.2 percent, through 2019-20 due to the salary increases negotiated in their latest CBA; it is noted this labor agreement expires on June 30, 2017. The Division of Public Works is projected to increase by $1.7 million, or 5.7 percent, through 2019-20. The primary increase in Public Works is driven by costs associated with the recently settled Local 264 (blue-collar) CBA, the costs for which are reflected in the 2017-2020 Financial Plan. The cumulative impact of these three departments is $8.0 million; the remaining twelve departments are projecting a net decrease of $1.0 million over the Financial Plan. Individually no significant fluctuations are noted.

General Charges are projected to increase from $164.2 million in 2016-17 to $169.7 million in 2019-20, representing an increase of $5.5 million, or 3.4 percent. The majority of these expenditures are held flat or have minor increases projected with the exception of fringe benefits which increases by $5.5 million, or 4.0 percent, over the Financial Plan. The increase in fringe benefits is attributed mainly to rising costs for health insurance: an increase of $2.2 million is projected for health insurance for retirees and $2.0 million is projected for active employees. In addition, employer payroll taxes are projected to increase $0.9 million over the Financial Plan, payments to the ERS pension system are projected to increase $0.3 million and workers compensation modestly increases by $0.1 million over that period.

Currently, the City is self-insuring its health insurance program and prescription drug coverage. In connection with becoming fully self-insured for both medical and prescription drug coverage, the City has purchased stop-loss insurance to provide the City protection against catastrophic costs. The City has built in the costs for the stop-loss insurance coverage within its healthcare costs accordingly. The City utilized the stop-loss coverage within the past fiscal year in three different incidents where the individual's costs reached the $300,000 threshold.

Pension costs are held essential flat over the Financial Plan, increasing approximately $306,500 over the Financial Plan. The pension costs associated with increased salaries are minimized due to several factors, the most significant one being the decrease in the required annual contribution rate as well as an increase of lower step employees compared to the number of top step employees. New employees hired after April 1, 2012, are members of the NYSERS pension systems' Tier 6, which requires employee contributions between 3 to 6 percent, depending on salary level, for the entire length of employment and also has lower required employer contribution rates resulting in reduced pension costs to the employer. The required contribution rates based on salary are the same for both ERS and PFRS Tier 6 members, as of April 1, 2013. The City is able to provide the same level of service, but at a lower cost by utilizing lower step employees.

Utilities are held flat over the Financial Plan increasing only by $53,000, less than 0.5 percent. Utilities include natural gas for heating and cooling purposes, electricity for City facilities and street lights, and phone service. The ability to hold these costs flat is attributed to several factors including the decreased cost of natural gas which not only decreases the City's heating and cooling costs, but also reduces the cost of electricity procurement. Improved building efficiencies and upgrades that reduce energy waste are factors contribution to the minor increase in budgeted utilities costs, and include weatherization and insulation, conversion of light fixtures in buildings and street lights to Light Emitting Diodes (LED's), and the continued deployment of voice over internet phone service (VOIP) to City facilities.

Debt Service expenditures represents primarily capital lease expenditures and are decreasing from $390,300 in FY 2016 to $112,000 in FY 2020; this amount is not significant to the Financial Plan.

Fringe Personal Services are increasing $319,900 over the Financial Plan, and are reflective of the recent salary increases for fire and police. This expenditure represents salary and fringe benefits paid on behalf of firefighters and police officers that are out in injured-on-duty status but have not been moved to the New York State disability system.

Grants in Aid are projected to decrease by $100,000 over the Financial Plan, and this is attributed to a one-time increase of $100,000 to Peacemakers in FY 2017, which is then eliminated in the out-years of the Financial Plan.

All other general charges are being held flat over the course of the Financial Plan.

Operating transfers out decrease by $0.9 million over the Financial Plan, which is attributed to the decrease in the payment to the Debt Service Fund of $720,400, and the decrease of the subsidy transfer to the Refuse and Recycling Fund in the amount of $200,000. The amount of this subsidy included for FY 2017 and FY 2018 is $3.2 million, which is consistent with the amount provided over the last several years. The amount of the transfer decreases to $3.0 million in FY 2019 and FY 2020. The City is in the process of issuing a proposal to privatize refuse and recycling collection services. In connection with this plan, the City's General Fund will no longer subsidize the operations of this fund. It is noted that the General Fund has recorded a long-term receivable of $17.4 million from the Refuse and Recycling Fund, the repayment of which is yet-to-be determined.

The transfer to the Buffalo School District ($70.3 million) is held flat over the Financial Plan.

The following schedule summarizes the expenditures by purpose, as opposed to the previous schedule which was by department to provide a different view of what costs are increasing or decreasing over the Financial Plan.

	2015-2016	2016-2017	2017-2018	2018-2019	2019-20	Four-Year Increase/(Decrease)	
	Adopted Budget	Adopted Budget		Projection			
Departmental Costs	$	$	$	$	$	$	%
Personal Services	180,568,482	190,935,835	194,006,653	197,247,926	200,519,196	9,583,361	5.0%
Utilities	216,036	345,226	348,740	352,292	355,883	10,657	3.1%
Travel	141,475	218,943	219,596	220,261	220,940	1,997	0.9%
Supplies	10,878,021	10,025,352	9,763,341	9,931,149	10,111,476	86,124	0.9%
Services	23,453,531	24,962,316	22,525,589	22,715,409	22,907,640	(2,054,676)	-8.2%
Capital Outlay	5,116,644	5,082,419	4,418,719	4,425,655	4,432,730	(649,689)	-12.8%
Subtotal	**220,374,189**	**231,570,091**	**231,282,636**	**234,892,691**	**238,547,864**	6,977,773	3.0%
General Charges							
Grant in Aid	795,000	895,000	795,000	795,000	795,000	(100,000)	-11.2%
Utilities	17,750,000	17,750,000	17,767,525	17,785,068	17,802,627	52,627	0.3%
Services	1,566,500	1,566,500	1,566,500	1,566,500	1,566,500	-	0.0%
Other	2,700,000	2,700,000	2,700,000	2,700,000	2,700,000	-	0.0%
Personal Service	5,000,000	5,226,000	5,330,520	5,437,130	5,545,872	319,872	6.1%
Salary Adjustment	9,000,000	-	-	-	-	-	-
Fringe Benefits	135,523,959	135,664,189	137,645,340	139,394,934	141,178,728	5,514,539	4.1%
Debt Service	112,000	390,316	112,000	112,000	112,000	(278,316)	-71.3%
Subtotal General Charges	**172,447,459**	**164,192,005**	**165,916,885**	**167,790,632**	**169,700,727**	5,508,722	3.4%
Interfund Transfers Out	**98,689,375**	**98,178,812**	**97,936,251**	**97,496,117**	**97,258,383**	**(920,429)**	**-0.9%**
Total	**491,511,023**	**493,940,908**	**495,135,773**	**500,179,440**	**505,506,974**	11,566,066	2.3%

Per the above schedule, the single largest cost increase is related to Personal Services costs, increasing from $190.9 million to $200.5 million, or an increase of $9.6 million. As previously noted, this increase is attributed to the settlement of all City labor contracts, including three

recently settled contracts, and the addition of twenty-nine new positions in the 2016-17 Adopted Budget.

Services are off-setting the increase in personal services by being reduced by $2.0 million over the Financial Plan. Services are outside contracts with private companies that provide the City with technical, engineering, and other services that the City does not have the capacity to provide. This reduction is reflective of multiple contracts being completed over the course of the Financial Plan. Examples of three of the more significant contracts included in fiscal year 2016-17 that will decrease over the course of the Financial Plan once services are completed, include: completion of the reassessment process, which is to be fully expended in 2016-17, and is valued at $530,000; $500,000 for the marketing and management for the Beverly Gray Office; and, the new software package for building plan review which is budgeted at $275,000. Departmental utilities and travel are held flat over the Financial Plan while capital outlay declines from $5.0 million in 2016-17 to $4.4 million in 2017-18 and then is held flat in the remaining out-years. The fluctuation is not deemed significant.

Within the category of General Charges, utilities are held flat over the life of the Financial Plan, increasing by $52,600, or 0.3 percent. Current year utilities are projected to be under budget by $500,000. We recommend this area continue to be monitored due to the fluctuations that can occur in energy prices.

Fringe Benefits in total are increasing by $5.5 million over the Financial Plan, or 4.1 percent. This is a significant reversal of trends from over the past ten-years which experienced double digit growth. As previously noted, the City has moved to a self-insured health insurance program which includes prescription drug coverage which is projected to initially achieve savings and in future years to not have as significant a growth as seen in the past. The City implemented the new self-funding of health insurance on January 1, 2016, and includes both those enrolled under active and retiree health insurance. As previously discussed, pension expenditures are projected to be held flat over the Financial Plan.

The Salary Adjustment line, which are funds set aside for retroactive costs for labor agreements, is currently budgeted at $9.0 million for FY 2016, but is reduced to $0 over the Financial Plan. Interfund Transfers Out are currently budgeted at $98.7 million in 2015-16 and annually are projected to decrease modestly to $97.3 million in FY 2020. The reduction in Operating Transfers Out is attributed to the subsidy transfer from the General Fund to the Refuse and Recycling Fund ($200,000) in FY 2019 and 2020 and a reduction in the transfer to the Debt Service Fund for the payment of principal and interest on outstanding debt in the amount of $720,400.

Four-Year Plan Staff Levels

The following chart illustrates the adopted staffing schedule over the life of the Financial Plan.

	2015-16 Adopted Budget	2016-17 Adopted	2017-18 Projected	2018-19 Projected	2019-20 Projected
Police (uniform)	801	801	801	801	801
Fire (uniform)	719	722	722	722	722
Other	1,132	1,158	1,155	1,155	1,155
Citywide	2,652	2,681	2,678	2,678	2,678
Net Increase/(Decrease)	**24**	**29**	**(3)**	**0**	**0**

As shown in the schedule above, staffing levels increased by 24 in 2015-16 as compared to 2014-15 and increase by an additional 29 FTEs in 2016-17 to 2,681 FTEs; staffing levels are projected to be fairly stable over the course of the remaining Financial Plan, with a reduction of three FTE's beginning in FY 2018. The increase between fiscal year 2016 and fiscal year 2017 was discussed in the Staffing Levels section of the 2016-17 Budget Overview.

Budget and Four-Year Plan Summary

There are specific areas within the Financial Plan that will require monitoring. In the event that a key assumption is no longer appropriate, the City will be required to revise its Financial Plan. The following items summarize these areas:

- The inclusion of uncertain revenues in the amount of $4.9 million in the Financial Plan related to the projection of increases to State AIM in the three out years of the Financial Plan. State AIM has been projected to increase by 2 percent in FY 2018 and an additional 0.5 percent annually in FY 2019 and FY 2020. The State's Financial Plan includes a zero percent increase to the Big Four Cities over this same time period. The State has not increased State AIM since FY 2011-12. This revenue growth is considered speculative.

- There are various revenues that will require close monitoring due to the difficulty in estimating these revenue sources. These areas include sales tax, fines, service charges and miscellaneous revenue.

- Class I Utility taxes should be monitored over the course of the Financial Plan. These are volatile resources that are based on local consumption. Historically this revenue source was overstated. This has been an underperforming area over the last several years.

- Sales tax is an area of concern due to the local economic climate. Historically Erie and Niagara County have benefited from Canadian shoppers coming to the region to take advantage of the lower tax rate. With the devaluation of the Canadian dollar compared to the U.S. Dollar, there has been a decrease of Canadian shoppers in Western New York, which has had an impact on sales tax collections. In addition, the decrease in the price of fuel and gasoline has reduced sales tax collections, yes it is a boon for the consumers but

local governments are struggling with the decrease in sales tax. Any growth in the out-years is speculative, since sales tax is directly tied to consumer confidence, and the ability of a household to afford purchases.

- The City may be underestimating the Police and Fire overtime costs over the Financial Plan, the amount for which is based on multiple assumptions that may not materialize. Such fluctuations from the multiple assumptions include having more individuals retire than projected, an increase of individuals who are classified as injured-on-duty, or an inability to recruit enough qualified applicants to be able to fill the expected police and fire classes for 2016-17. The City continues to use vacancies to fund overtime overages. The City will not be able to fill a full complement of Fire or Police officers compared to what is budgeted annually. Both departments are dealing with attrition, and an extended period of being able to recruit and fill vacant positions. It is projected that overtime, particularly in the Police Department will continue to increase until a significant number of vacancies are filled, and the officers are deployed.

Other areas of significance as noted within the report are summarized below:

- The City is now self-insured for health insurance and prescription drugs. The transition to self-insure was completed on January 1, 2016, and the new pharmacy program went into effect on March 1, 2016. Current out-year estimates are based on three months of actual expenditures; the estimates appear reasonable and include modest growth in the out-years of the Financial Plan. In addition to these lower costs, it is noted that the City has purchased stop-loss insurance to limit exposure to catastrophic costs, which has been utilized multiple times in the current year. The City was conservative in its health insurance projections in FY 2017 and over the remaining three years of the Financial Plan.

- There is a continued reliance from operating transfers in from the Parking Fund to fund the general operations of the City. The transfer is $6.2 million in FY 2017, increases to $7.1 million in FY 2018 and $7.2 million in FY 2019, and decreases to $6.1 million in FY 2020.

- Available fund balance is projected to decrease by approximately $31.0 million by the end of this Financial Plan, which would leave an approximate balance of $12.4 million available. Unassigned fund balance available at July 1, 2015 was $43.4 million. The Financial Plan includes the use of $30.7 million of fund balance. The Financial Plan appears to be balanced, but maintaining the balanced plan is highly dependent on the use of the unassigned, fund balance. This will need to be carefully monitored as the depletion of unassigned fund balance would represent a significant indicator of fiscal instability. It is noted that the funding source of fund balance is the last funding source drawn upon when current year expenditures exceed current year revenues, and therefore any budgetary surplus will have a positive result on the projected use of fund balance. The continued reliance on fund balance is an unsustainable practice.

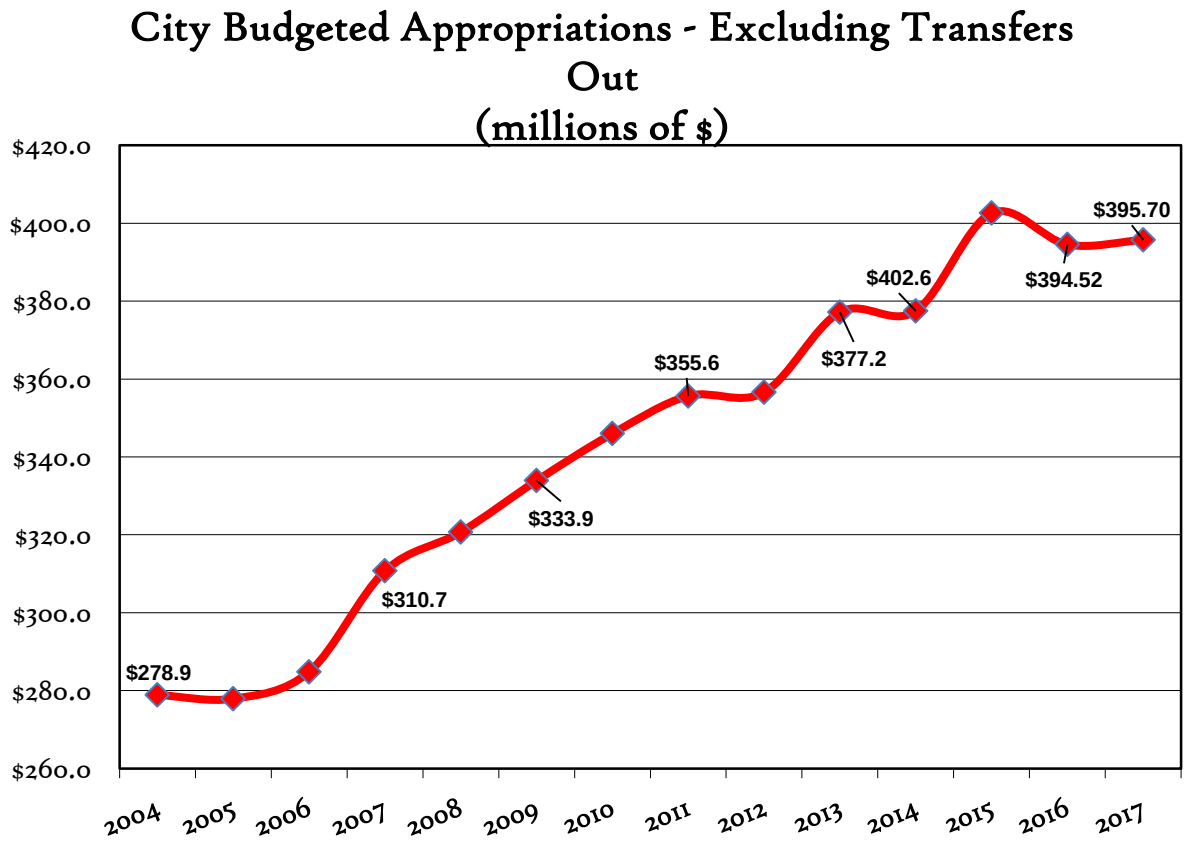
- The Rainy Day Fund may be utilized in the event of an unforeseen financial circumstance; however, the Rainy Day Fund would require replenishment which ultimately would add additional fiscal constraints on the City.

- The City is maintaining its contribution to the Buffalo School District flat over the life of the Financial Plan at $70.3 million a year. There have been members of the Board of Education along with District officials who have voiced an opinion that the City should be contributing a greater share to the District.

- The Financial Plan includes a plan to address the annual deficit in the Solid Waste and Recycling Fund by privatizing the services. The Financial Plan maintains a subsidy of $3.2 million in FY 2017 and FY 2018, with the amount being reduced to $3.0 million in FY 2019 and FY 2020. Currently this fund continues to operate at a loss with the accumulated net deficit continuing to grow. The General Fund is responsible for the cumulative cash-flow shortage of this fund; the amount due from the Solid Waste and Recycling Fund to the General Fund was $17.4 million at June 30, 2015. It is noted that the RFP was cited in last year's Financial Plan and has yet to be issued.

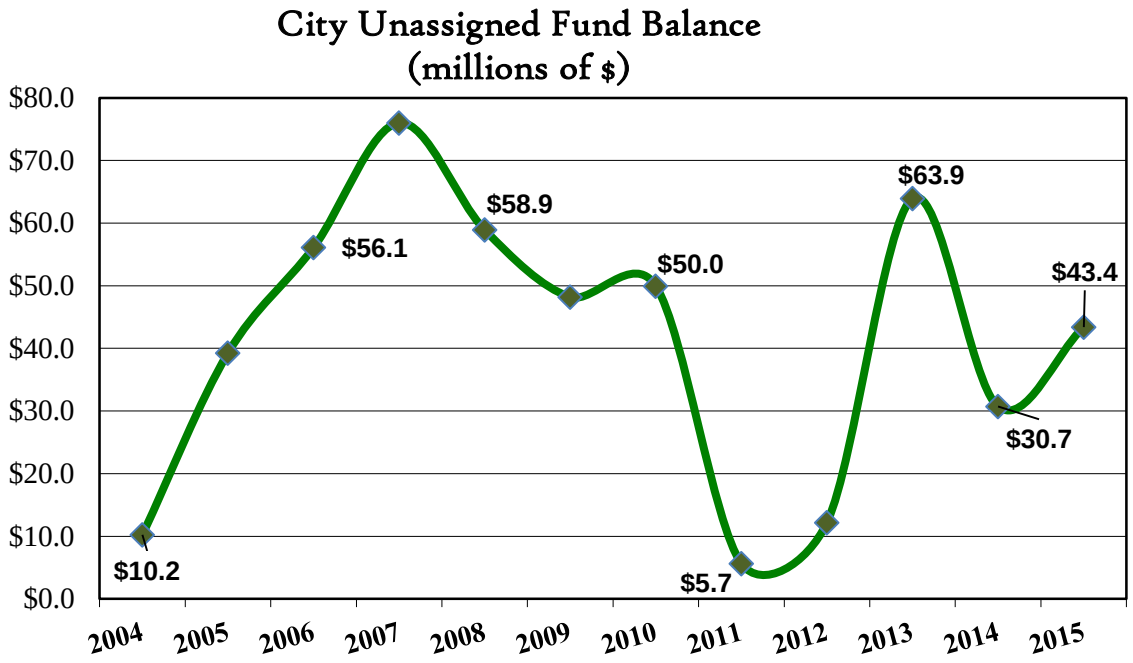
Appendix A

The following graphs and charts provide an overview of certain key statistics that are evaluated annually by the Buffalo Fiscal Stability Authority during its review of the City of Buffalo's operations. The explanations for fluctuations from year-to -year are available in the respective Annual Report for that particular year.



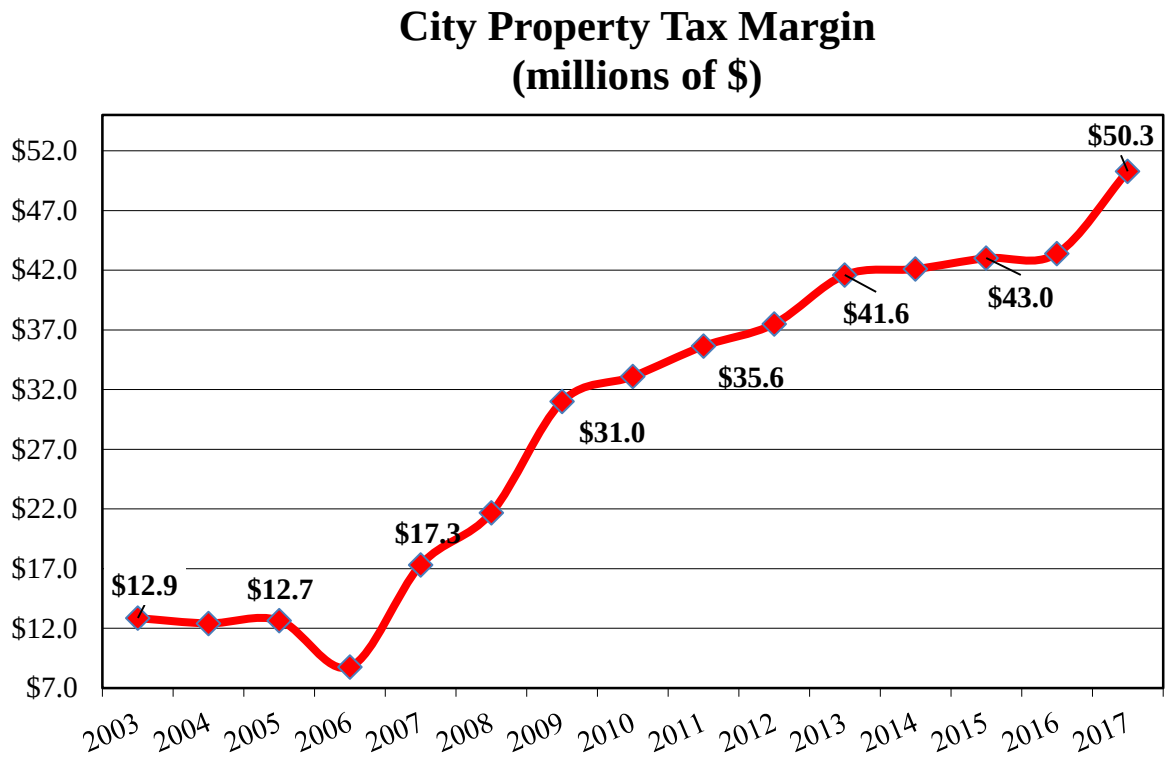
The chart above provides a historical overview of the City's budgeted expenditures since 2003-04, which was the year the BFSA was created. The budgeted appropriations represent operating expenditures only and exclude operating transfers out. Over the fourteen-year period, budgeted appropriations less operating transfers out have increased from $278.9 million for fiscal year 2004 to $395.7 million for fiscal year 2017, representing an increase of $116.8 million, or 41.9 percent. On an annual basis appropriations increased from $394.5 million to $395.7 an increase of $1.2 million, or 0.3 percent. The increase in expenditures is reflective of a net impact of increased salaries and fringe benefits for employees with a decrease in health insurance costs from FY 2016 to FY 2017. Since FY 2008 the most significant cost drivers have been pension costs, health insurance and salaries. Beginning in January 2016, the City moved to a self-insured health insurance program which held budgeted health insurance costs flat compared to FY 2015 and is budgeted to decrease in FY 2017, which is attributed to the City being able to take advantage of a full-year savings from moving to a self-insured model.

Appendix A (Continued)



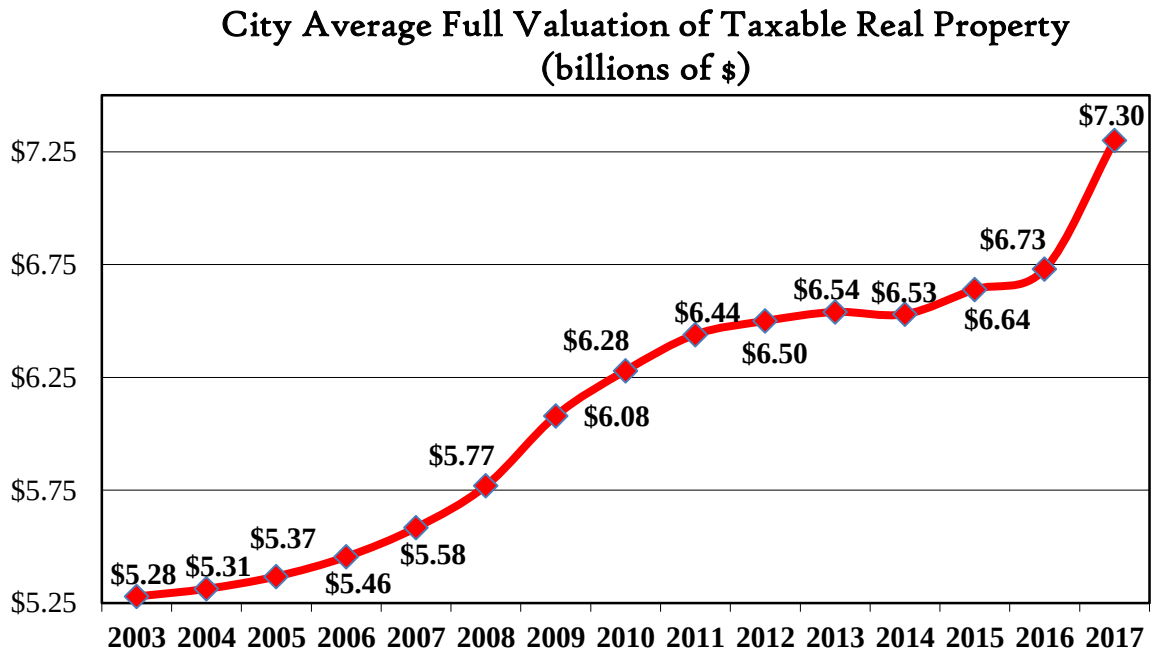
The chart above demonstrates the historical balance of unreserved, undesignated/unassigned fund balance at June 30 for each fiscal year reported. Effective June 30, 2008, the City allocated $30.2 million from its unreserved, undesignated fund balance into a Rainy Day Fund which has been maintained since 2008. Unreserved, undesignated/unassigned fund balance represents an accumulation of the results of operations from all past years and provides funding that may be appropriated for specific purposes. It fluctuates widely from year-to-year based on the annual operating results, one time events, and other required uses of fund balance. The 2017-2020 Financial Plan utilizes 70.7 percent of all remaining unassigned fund balance, $43.4 million, to assist in funding the projected budgetary gaps which total $30.7 million.

Appendix A (Continued)



The above chart provides a historical overview of the City's property tax margin capacity. At June 30, 2003, the City had remaining $12.9 million of its constitutional taxing limit. The recent property tax levy for the 2016-17 fiscal year provided a remaining property tax margin of $50.3 million, representing an increase of $37.4 million, or 289.9 percent, over the last fifteen years.

Appendix A (Concluded)



The above graph depicts the City's Average Full Valuation of Taxable Real Property and Special Franchises on a historical basis over the last fifteen years. The total average assessed property value has increased from $6.5 billion in 2012 to $7.3 billion in 2017, representing an increase of approximately $800 million over the last five years. As a point of reference the total average full valuation of taxable real property value was $5.31 billion for fiscal year 2004, which has increased by nearly $2.0 billion to the current year value of $7.3 billion. The average full valuation of taxable real property represents a five-year average of the full value of assessed properties and is utilized in calculating the City's property tax levying limitation.

Buffalo City School District
Overview of the FY 2016-17 Adopted Budget & FY 2017-2020 Financial Plan

INTRODUCTION

The Buffalo City School District (the "District") has been faced with a structural imbalance over the last several years. Expenditures have exceeded revenues for each of the fiscal years ended June 30, 2012 through June 30, 2015, resulting in annual deficits and a corresponding cumulative reduction to fund balance of $44.7 million. A $5.5 million deficit has been conservatively projected by the District for the current year ending June 30, 2016.

A deficit is projected in the FY 2016-17 Adopted Budget (the "Adopted Budget"). A budget gap is projected for each year of the FY 2017-2020 Financial Plan (the "Financial Plan") with a cumulative four-year budget deficit of $23.3 million.

A Programs to Eliminate the Gap Action Plan ("PEG Plan") has been formulated to address the potential methods that the District has identified to close out-year projected gaps; it is noted the FY 2016-17 Adopted Budget deficit is closed through the use of fund balance.

The Financial Plan provides the following:

- General Fund revenues increase at an average annual rate of 1.7% over the next four fiscal years;
- General Fund expenditures increase at a slightly slower rate than General Fund revenues at an average annual rate of 1.6%;
- Expired collective bargaining agreements ("CBAs") – there is no increase in expenditures from settling expired CBAs; two significant contracts for both the teachers' and administrators' unions expired on June 30, 2004;
- The continued draw-down of reserves as well as actions within the PEG Plan will be sufficient to adequately address out-year budgetary gaps.

BUDGET SUMMARY

The following are the highlights of the Adopted Budget and Financial Plan:

1. The Adopted Budget includes estimated revenues of $843.0 million and budgeted appropriations of $847.9 million. The excess of expenditures over revenues of $4.9 million represents the budget deficit and is closed through the appropriation of $0.2 million of Assigned fund balance and $4.7 million of Unassigned fund balance.

2. The New York State Legislature approved a State Fiscal Year ("SFY") 2016-17 budget that included total State-wide school aid of $24.3 billion with $28.6 million in additional New York State ("State") aid for the District over the Adopted Budget.

3. The District Superintendent has proposed a series of initiatives for the District titled, "The New Education Bargain." These initiatives include the hiring of additional teachers and related support staff to lengthen the school day and provide extended-day programs, reduce class sizes, incorporate rigorous early elementary education programs, establish community schools to provide additional supports for students, expand social supports for

children and families in need, and implement innovative new high school programs. The Adopted Budget includes the appropriation of $16.4 million to fund 73 additional full-time equivalent ("FTE") employees to support the first year of these initiatives. The District is utilizing additional funds provided by the State to establish community schools; additional elements of the initiatives are funded by revenues dedicated for general operations as well as Unassigned fund balance.

FINANCIAL PLAN SUMMARY

An operating deficit is present in all four years of the Financial Plan. The cumulative deficit totals $23.3 million. The budget gaps are reduced to a cumulative $5.0 million following the draw-down of $18.3 million in fund balance.

The Financial Plan provides for the use of $18.3 million in fund balance. The remaining cumulative budget gap is $5.0 million.

The following chart summarizes the Financial Plan:

FY 2017-2020 Financial Plan Summary					
	2016-17 Adopted Budget	2017-18 Outyear 1	2018-19 Outyear 2	2019-20 Outyear 3	4-Year Totals
	$ in millions				
Revenues	843.0	860.9	881.4	901.6	3,486.9
Expenditures	847.9	869.8	888.8	903.7	3,510.2
Surplus/(Deficit	(4.9)	(8.9)	(7.4)	(2.1)	(23.3)
Assigned Fund Balance	0.2	5.5	5.8	2.1	13.6
Unassigned Fund Balance	4.7	0.0	0.0	0.0	4.7
Remaining Deficit/Surplus	0.0	(3.4)	(1.6)	(0.0)	(5.0)

Programs to Eliminate the Gap Action Plan

The District has allocated $4.9 million of fund balance to address the budget gap for FY 2016-17. The District has identified $0.2 million of fund balance reserved for capital improvements as well as $4.7 million in Unassigned fund balance to be used for general operations.

The Financial Plan includes a PEG Plan to demonstrate the District's ability to address the remaining out-year deficits totaling $5.0 million. The PEG Plan provides an expansive list of potential actions which could be enacted to eliminate out-year budgetary gaps. These actions total $43.7 million of estimated additional revenue or budgetary savings, exceeding the amount of the projected remaining deficits. Certain actions are considered highly speculative (notated below).

The following is a summary of the proposed PEG actions:

General Fund PEG Actions	FY 2016-17 Adopted Budget	FY 2017-18 Outyear 1	FY 2018-19 Outyear 2	FY 2019-20 Outyear 3	4-Year Totals
	$ in Millions				
Baseline Gap	(4.9)	(8.9)	(7.4)	(2.1)	(23.3)
Anticipated Use of Fund Balance (Assigned & Unassigned)	4.9	5.5	5.8	2.1	18.3
Revised Baseline Gap	**0.0**	**3.4**	**1.6**	**0.0**	**(5.0)**
PEG Actions - Recurring Savings					
Reduce/eliminate Contingency Account	-	2.0	2.0	2.0	6.0
Renegotiate service contracts	-	0.5	0.5	0.5	1.5
Transfer idle facilities back to City of Buffalo	-	0.4	0.4	0.4	1.2
Reduce clerical staff via attrition with automation	-	0.2	0.3	0.4	0.9
Delay implementation of New Education Bargain	-	4.0	6.0	6.0	16.0
*1% reduction in special education costs via efficiencies & attrition**	-	1.0	1.0	1.0	3.0
Total Potential PEG Recurring Savings	**-**	**8.0**	**10.2**	**10.3**	**28.6**
PEG Actions - Additional Revenues/ One-time Savings - Speculative Items					
*Additional funding from the City of Buffalo**	-	3.0	3.3	3.6	9.9
*Maximize school start/end times for bussing efficiencies**	-	4.0	0.6	0.6	5.2
Legislative changes to increase revenues/reduce mandated expenditures via lobbying efforts	**UNQUANTIFIABLE**				-
Utilize Unassigned Fund Balance	**AS NEEDED - $18.0 M Available**				-
Total Potential PEG - Additional Revenues/One-time Savings	**-**	**7.0**	**3.9**	**4.2**	**15.1**
Total PEG Actions	**-**	**15.0**	**14.1**	**14.5**	**43.7**
Excess of PEG Actions over Baseline Gap	**-**	**11.6**	**12.5**	**14.5**	**38.7**

Denotes items that the BFSA has deemed too speculative to reasonably rely on to potentially reduce budgetary deficits.

PEG Actions – Recurring Savings

The PEG Plan indicates that the Reserve for Contingency, a budgeted expenditure, could be reduced by $2.0 million in each out-year of the Financial Plan, for a total of $6.0 million. It is noted that diminishing this reserve will impair the District's ability to fund unexpected expenditures within the General Fund, as the budget is becoming tighter each year. The Reserve for Contingency increases from $2.0 million to $3.0 million in out-years 1-3 of the Financial Plan.

The BCSD has begun to aggressively re-examine service contracts and has been able to renegotiate several existing contracts. The PEG Plan lists annual recurring savings of $0.5 million for a total of $6.0 million based on the successful efforts to date. As such, this PEG action is clearly defined.

The BCSD has identified three facilities that were formerly utilized as schools: PS #8, #18A, and #171. The facilities have been idle and require continued maintenance, security, and utilities. The facilities remain in the BCSD's real estate portfolio so that they may potentially be used again, if warranted. The BCSD has identified annual recurring savings of $0.4 million for a total of $1.2 million if the facilities were to be transferred back to the City.

The PEG Plan indicates that the District is currently analyzing administrative processes which could be automated and/or made more efficient including: electronic payroll sign-in, online receiving of invoices and purchase orders, contract signature process, etcetera. The actions would enable the District to reduce staffing through attrition by three (3) in out-year 1 and an additional two (2) in out-years 2 and 3, for a total reduction of seven (7) FTE employees via attrition by FY 2019-20. The potential PEG action is quantified at $0.9 million over the PEG Plan.

As noted, the District Superintendent has proposed the New Education Bargain, a series of initiatives to improve educational outcomes within the District. These include an initial $4.0 million investment in FY 2016-17 and include reduced class size and extended day initiatives. The PEG Plan notes that while the intended outcomes from these initiatives are desirable, they are not mandated and therefore could be reduced, delayed, and/or eliminated if needed to close out-year budgetary gaps.

The PEG Plan quantifies a cumulative $16.0 million and reduction of up to 50 FTEs by scaling these initiatives back to the initial FY 2016-17 investment, with 30 FTEs removed in out-year 1 increasing to 50 FTEs in out-year 2 and 3.

Another component of the New Education Bargain is for extended day programs, which are normally funded through grants. The total investment in the General Fund is $4.6 million. A reduction of $1.0 million in each of the three out-years of the Financial Plan is identified as a potential action as either a reduction in expenditures or for additional grant funds yet to be identified after a review the program's effectiveness.

The PEG Plan notes that recent studies have recommended potential changes in the way by which the District provides special education services. The District plans to engage with vendor(s) to further study the delivery of special education services to see if the processes can be improved and if cost-savings may be realized. The PEG Plan estimates that a reduction of 11 FTEs beginning in FY 2017-18 and held flat in the final two out-years could provide a cumulative $3.0 million to close out-year budgetary gaps. The reduction is approximately $1.0 million a year with the initial reductions to personnel occurring in out-year 1 of the Financial Plan. Furthermore, the Financial Plan assumes a 1% decrease in the number of special education personnel, which the District believes is a conservative approach. Over the past two years, the Buffalo Board of Education has taken the opposite approach from what has been included in the Financial Plan and has extended funding for the provision of special education services. For example, in FY 2015-16 the Adopted Budget included 163 FTE special education positions which was subsequently increased to 189 budgeted positions. Due to this opposing stance by the Board of Education, the BFSA deems the $3.0 million in savings from a reduction of special education personnel to be highly speculative.

PEG Actions - New Revenues/One-time Savings

The PEG Plan includes the potential of an increased contribution from the City of Buffalo as follows:

- FY 2017-18: $3.0 million
- FY 2018-19: $3.3 million

- FY 2019-20: $3.6 million

The potential in new revenue is cumulatively listed at $9.9 million.

This PEG action is highly speculative. The City of Buffalo's Financial Plan does not include projected increases in its contribution to the District and the ability of the City to provide increases has not been demonstrated.

PEG Actions – Additional Revenues/ One-time Savings – Speculative Items
The PEG Plan lists the potential of one-time savings including the equalization of school bell times as follows:

- FY 2017-18: $4.0 million
- FY 2018-19: $0.6 million
- FY 2019-20: $0.6 million

The cumulative impact of this action is $5.2 million. The PEG Plan notes that school start-times could be changed to maximize bussing efficiencies. An estimated $4.0 million is projected to be saved in FY 2017-18; it is considered largely a one-time savings in that the District is reimbursed 85% of eligible prior year transportation expenditures in the form of State Transportation Aid. The savings from the equalization of bell times is considered speculative in that the District has been unsuccessful in previous attempts to reach an agreement with the teachers' union to enact this efficiency, despite efforts to do so in the last several years.

The PEG Plan lists continuing lobbying the State Legislature for additional revenues and mandate relief. Such lobbying efforts have historically helped the District secure additional, one-shot State Aid in previous fiscal years. The PEG action in and of itself is vague and unquantifiable.

The PEG Plan notes that the District has $18.0 million of Unassigned fund balance available beyond that which is required to be retained per the Board of Education's fund balance policy. Unassigned fund balance totaled $52.1 million as of June 30, 2015, $18.0 million in excess of the minimal amount of Unassigned fund balance which must be maintained as per the District fund balance policy. While not a desired action, the reserves have been identified as available to close any out-year gaps.

It is noted that an additional $5 million in fund balance could be utilized to fund potentially additional FY 2015-16 healthcare expenditures. The Buffalo Board of Education approved a resolution to eliminate provisions in labor agreements providing cosmetic surgery when deemed medically necessary. As the action was not agreed upon by the impacted collective bargaining units, the impacted groups have initiated litigation for the provisions to be restored. The expenditure is estimated at approximately $5.0 million annually.

The potential recurring savings of non-speculative PEG actions total a cumulative $25.6 million and would be more than sufficient to close the out-year budgetary gaps projected in the Financial Plan. The PEG Plan notes that implementing these actions would not be desired; the District has clearly defined and delineated potential actions which could be taken to eliminate out-year gaps.

The new revenue/one-time savings PEG actions are provided as potential items that could assist the District to eliminate out-year gaps. These actions total a combined $15.1 million and are more speculative or unquantifiable in nature than those PEG actions listed for recurring savings. The District has demonstrated that it has the ability to address potential out-year gaps listed in the Financial Plan through actions that, while not preferred, are clearly defined and actionable.

The following chart summaries the revised PEG Plan as adjusted to exclude those actions or items which the BFSA has determined to be speculative which are discussed above and include:

- Recurring savings: Reductions in special education services costs,
- Additional revenues -
    - Increase in the annual contribution from the City of Buffalo,
    - New, additional revenues from the State of New York resulting from lobbying efforts,
- One-time savings: Optimizing school bell-times.

General Fund PEG Actions	FY 2016-17 Adopted Budget	FY 2017-18 Outyear 1	FY 2018-19 Outyear 2	FY 2019-20 Outyear 3	4-Year Totals
	$ in Millions				
Baseline Gap	(4.9)	(8.9)	(7.4)	(2.1)	(23.3)
Anticipated Use of Fund Balance (Assigned & Unassigned)	4.9	5.5	5.8	2.1	18.3
Revised Baseline Gap	**0.0**	**3.4**	**1.6**	**0.0**	**(5.0)**
PEG Actions - Recurring Savings					
Reduce/eliminate Contingency Account	-	2.0	2.0	2.0	6.0
Renegotiate service contracts	-	0.5	0.5	0.5	1.5
Transfer idle facilities back to City of Buffalo	-	0.4	0.4	0.4	1.2
Reduce clerical staff via attrition with automation	-	0.2	0.3	0.4	0.9
Delay implementation of New Education Bargain	-	4.0	6.0	6.0	16.0
Total PEG Actions *(less actions deemed speculative)*	**-**	**7.1**	**9.2**	**9.3**	**25.6**
Excess of PEG Actions over Baseline Gap	**-**	**3.7**	**7.6**	**9.3**	**20.6**

Current Fiscal Year Projections (FY 2015-16)

General Fund revenues are projected to be $813.5 million at the end of the current fiscal year ("CFY"), representing an increase of $25.9 million, or 3.3%, over FYE 2015 actual revenues. The projected increase in total General Fund revenue is the result of the projected net increase of $20.9 million in total State Aid, a projected net increase of $1.8 million in Erie County sales tax receipts, a projected net increase of $1.6 million in various miscellaneous revenues including tuition, inter-fund revenues, and other local sources, and a projected net increase in the federal Medicaid reimbursement projected to be $1.6 million greater than the amount actually received in the prior fiscal year ("PFY").

General Fund expenditures are projected to be $819.0 million at FYE 2015-16. Expenditures at this level represent a $28.8 million, or 3.6% increase, over the PFY. The net increase in General

Fund expenditures in the CFY over the PFY is driven by several large expenditure increases including:

- **Employee Compensation** - An increase of $9.7 million, or 3.9%, over the PFY;
- **Employee Benefits** - An increase of $5.3 million, or 2.9%, over the PFY;
- **Charter School Payments** - An increase of $5.8 million, or 5.9%, over the PFY;
- **Debt Service** – A decrease of $1.8 million, or 1.5%, over the PFY;
- **Transportation** – An increase of $5.2 million, or 12.9%, over the PFY;
- **All Other Expenditures** - An increase of $4.6 million, or 4.5%, over the PFY.

For the year ending June 30, 2016, the District is conservatively projecting a deficit of $5.5 million which will result in a commensurate reduction in fund balance. Potential budgetary surpluses have been projected at FYE which would reduce the final deficit.

GENERAL FUND REVENUES

General Fund revenues total $843.0 million in the FY 2016-17 Adopted Budget. Revenues are projected to increase through the out-years of the Financial Plan by approximately 1.7% annually. The total increase in revenues over the four years of the Financial Plan is $58.6 million, or 7%.

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

General Fund Revenues	2015-16 Adopted Budget	2016-17 Adopted Budget	2017-18 Outyear 1	2018-19 Outyear 2	2019-20 Outyear 3	$ Change from Year 1-4	% Change from Year 1-4
$ in Millions							
Real Property Tax	70.3	70.3	70.3	70.3	70.3	0.0	0.0%
Erie County Sales Tax	42.0	42.0	42.6	43.3	43.9	1.9	4.6%
State Aid (less Building Aid)	570.5	598.3	616.0	635.6	655.0	56.7	9.5%
State Building Aid	115.2	115.9	115.3	115.3	115.3	(0.6)	-0.5%
All Other Revenue	19.4	16.5	16.7	16.9	17.1	0.6	3.6%
Total GF Revenue	817.4	843.0	860.9	881.4	901.6	58.6	7.0%
Fund Balance	8.4	4.9	5.5	5.8	2.1		
Total GF Revenue & Assigned Fund Balance	825.8	847.9	866.4	887.3	903.7		

The projected year-to-year increase in General Fund revenues is consistent with recent historic actual revenue increases since fiscal year 2009-10. Upward adjustments have been made to State Aid as discussed further below.

New York State Aid

The District receives revenues for its General Fund from several sources, most significantly through State Aid. The District is one of the "Big Four" State school districts which include: the Buffalo City School District, the Rochester City School District, the Syracuse City School District, and the Yonkers City School District. These school districts are financially dependent on their respective city governments as they have no independent authority to levy taxes or issue bonds. The District is heavily dependent on State aid which comprises 84.7% of the District's

total budgeted revenues for FY 2016-17. State Aid as a percentage of total budgeted revenue is projected to grow to 85.7% in FY 2019-20.

State Aid is a composite term utilized to combine a variety of different formula and expense-based aids, most significantly Foundation Aid, which uses objective criteria to target funds to school districts. Foundation Aid represents funds available for the general operations of the District. It is estimated to be $494.7 million in FY 2016-17 out of the total budgeted State Aid (excluding State Building Aid) of $598.3 million, or 82.7% of total State Aid. Foundation Aid is projected to increase by $45.9 million to $540.6 in FY 2019-20, or 82.5% of total State Aid (excluding State Building Aid).

Neither the Adopted Budget nor the Financial Plan reflect a Gap Elimination Adjustment ("GEA") as seen in each previous fiscal years dating back to FY 2010-11, the first year that it was codified into State law. The GEA was established by the State to reduce its own budgetary deficits as well as to curtail the rising cost of education. The combined GEA from FY 2011 to FY 2015 was $98.3 million. Per New York State Education Law, §3602(6)(h): *"The gap elimination adjustment for the two thousand sixteen – two thousand seventeen school year and thereafter shall equal zero."*

Total FY 2016-17 State Aid, excluding State Building aid, is budgeted to increase by $27.8 million, or 4.9%, as compared to the FY 2015-16 Adopted Budget, although individual components of State Aid are budgeted to fluctuate.

New York State Building Aid

State Building Aid is shown separately to delineate it from funds available for general operations. State 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 the District approximately 93% of eligible capital improvement costs in the form of State Building Aid. These funds are applied to the related principal and interest payment due on the outstanding bonds.

State Building Aid is budgeted at $115.9 million, $0.7 million, or 0.6%, greater compared to the FY 2015-16 Adopted Budget. It is gradually reduced by $0.6 million, or 0.5%, to $115.3 million over the course of the Financial Plan based on anticipated Debt Service expenditures. As noted, State Building Aid is not available for general operating expenditures.

In total, budgeted State Aid of $714.2 million for FY 2016-17 represents an approximate $28.5 million, or 4.2%, increase over the FY 2015-16 Adopted Budget.

Real Property Tax/City of Buffalo Contribution

After total State Aid, the next highest revenue source is the City of Buffalo's contribution to the District, which is held at $70.3 million annually over the Financial Plan. The City of Buffalo (the "City") forwards a portion of collected property tax revenues to the District for use for both general operations and annual debt payments. The amount to be transferred to the District has

remained unchanged since FY 2007-08 and is projected to remain flat over the course of the Financial Plan. It is noted that the City may provide whatever contribution it deems necessary or appropriate but the level of effort must be maintained once the contribution of general operations has increased, unless there is a decrease in the total taxable assessed property value.

Erie County Sales Tax

The third largest revenue source for the District is sales tax, which is budgeted at $42.0 million for FY 2016-17, held flat as compared to the FY 2015-16 Adopted Budget. Budgeting sales tax receipts at this level is deemed prudent given current, regional consumer spending activity. This revenue is projected to increase $1.9 million, or 4.6%, over the course of the Financial Plan, representing an average annual increase of 1.1%.

The District is unique from its Big 4 Large City school districts in the manner in which it receives local funding. The District receives 9.7% (excluding State Building Aid) of its funding from approximately 51% of the City's property tax levy but receives a significant portion of the 3% base sales tax levied by Erie County. Of the other three Big 4 school districts only the Syracuse City School District receives any portion of county sales taxes receipts, budgeted at $920,000 for FY 2016-17. Conversely, both the Syracuse and Rochester City School Districts receive a higher percentage of their host municipalities' property tax levy at approximately 58.2% and 66.0% respectively.

All Other Revenue

All Other Revenue combined totals $16.5 million in the Adopted Budget, or 2.0% of total General Fund revenues. These amounts increase by $0.6 million, or 3.6%, over the Financial Plan. This category includes investment earnings, tuition received, interfund transfers, reimbursements from the PFY expenditures, and federal Medicaid reimbursements.

All Other Revenues is $2.9 million, or 15.0%, lower in the FY 2016-17 Adopted Budget compared to the FY 2015-16 Adopted Budget. These revenues are budgeted at a lower level than the prior fiscal year primarily as certain miscellaneous, non-recurring revenues are anticipated to be $2.4 million lower in the FY 2016-17. Additionally, the federal Medicaid reimbursement is anticipated to be $0.5 million lower than originally budgeted in FY 2015-16.

10-Year General Fund Revenue Changes

As a point of reference, the following compares actual FY 2010-11 total General Fund revenues with those projected for FY 2019-20.

General Fund Revenues	FYE 2010-11 (Actuals)	FYE 2015-16 (Adopted Budget)	FYE 2016-17 (Adopted Budget)	FYE 2019-20 (Projected)	10-Year Rate of Change	Average Annual Rate of Change
	$				%	
Real Property Tax	70.3	70.3	70.3	70.3	0.0%	0.0%
Erie County Sales Tax	34.3	42.0	42.0	43.9	28.1%	2.8%
State Aid (less State Builidng Aid)	502.1	570.5	598.3	655.5	30.6%	3.1%
State Building Aid	92.7	115.2	115.9	115.3	24.3%	2.4%
All Other Revenue	28.8	19.4	16.5	16.3	-43.5%	-4.3%
Total	**728.2**	**817.4**	**843.0**	**901.3**	**23.8%**	2.4%

Overall, the District has seen modest average annual growth in total General Fund revenues from FY 2010-11 to amounts budgeted for FY 2015-16. Increases projected in the Financial Plan are somewhat lesser than those materialized over these years but are reasonable given historical trends and recent developments. Some revenues are projected to continue to remain static or relatively static (e.g., the City's contribution of $70.3 million is unchanged over this period). Total General Fund revenues are projected to be $173.1 million, or 23.8%, higher in FY 2019-20 than in FY 2010-11, constituting a projected average annual growth of 2.4% over this ten-year period. Total General Fund revenues aside from State Building Aid are projected to increase $150.5 million over this ten-year period, a projected average annual growth of 2.4%.

General Fund Expenditures

General Fund expenditures total $847.9 million in the Adopted Budget. Expenditures are projected to total $903.7 million in FY 2019-20, an increase of $55.8 million, or 6.6%, over the course of the Financial Plan. The average annual rate of increase is 1.6%.

The projected year-to-year increase in General Fund expenditures represents an average annual increase consistent with historical actuals when excluding the District's debt service payments and payments to two of State's pension systems. Debt Service payments have been higher in the past several years due to the Joint Schools Construction Board ("JSCB") project. This expenditure is projected to decline $4.0 million, or 3.5%, over the Financial Plan. The District's payments to the New York State Teachers' Retirement System ("NYSTRS") and the New York State Employees' Retirement System ("NYSERS") have been higher in recent fiscal years due to the past national recession and slow economic recovery. They are projected to decrease $4.9 million, or 18.7%, and $0.8 million, or 13.4%, respectively, over the course of the Financial Plan due to declining employer contribution rates.

Expenditures are projected to increase at a rate (1.6% average annual rate of increase) that is less than the projected rate of increase in revenues (1.7% average annual rate of increase). Since currently expenditures exceed revenues, and the rate of growth of revenues is not significantly greater than the projected rate of growth of expenditures, a structural imbalance continues to be reported for each year of the Financial Plan.

General Fund expenditures are examined here in six discrete subcategories: Employee Compensation, Employee Benefits, Debt Service, Charter School Payments, Transportation, and All Other Expenditures.

The following chart summarizes General Fund expenditures by these six subcategories as projected in the Financial Plan:

	2015-16 Adopted Budget	2016-17 Adopted Budget	2017-18 Outyear 1	2018-19 Outyear 2	2019-20 Outyear 3	$ Change from Year 1-4	% Change from Year 1-4
	$ in Millions						
Employee Compensation	255.5	268.8	274.7	279.5	282.3	13.5	5.0%
Employee Benefits	193.1	193.5	202.0	208.0	214.9	21.4	11.1%
Debt Service	118.7	117.1	113.7	113.7	113.1	(4.0)	-3.5%
Charter School Payments	103.5	109.6	116.2	122.0	125.4	15.8	14.5%
Transportation	46.7	48.0	48.9	49.9	50.9	2.9	6.1%
All Other Expenditures	108.3	110.9	114.2	115.6	117.1	6.2	5.6%
Total	825.8	847.9	869.8	888.8	903.7	55.8	6.6%

Employee Compensation

Employee Compensation is the largest expenditure category of the District and includes salaries and wages for District employees. Total General Fund expenditures for Employee Compensation is budgeted at $268.8 million in the Adopted Budget and increases $13.5 million, or 5.0%, to $282.3 million over the course of the Financial Plan.

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

- The Buffalo Teachers' Federation (the "BTF" or "Teachers");
- The Substitutes United of Buffalo ("S/UB" or "Substitute Teachers");
- The Buffalo Council of Supervisors and Administrators ("BCSA" or "Administrators");
- The Professional, Clerical, and Technical Employees' Association ("PCTEA" or "White-Collar");
- The Buffalo Educational Support Team ("BEST") including Teacher Aides who are non-certified and Teaching Assistants who are certified;
- The Transportation Aides of Buffalo ("TAB" or "Bus Aides");
- Skilled Trades ("Trades");
- Local 264 members ("Blue-Collar");
- Local 409 members ("Engineers"); and
- Miscellaneous Compensation Items and Overtime.

The following chart compares General Fund Employee Compensation expenditures in the FY 2015-16 Adopted Budget, the FY 2016-17 Adopted Budget, and the three out-years of the FY 2017-20 Financial Plan. Staffing information is also depicted to show how budgeted FTEs in the General Fund have changed.

General Fund	FY 2015-16 (Adopted Budget)	FY 2015-16 (FYE Projection as of 03.31.2015)	FY 2016-17 (Adopted Budget)	FY 2017-18 (Out-year 1)	FY 2018-19 (Out-year 2)	FY 2019-20 (Out-year 3)
BTF	$ 179.2	$ 180.0	$ 192.0	$ 197.0	$ 201.1	$ 203.3
# of FTEs	**2,994**	**2,990**	**3,108**	**3,138**	**3,158**	**3,158**
Substitutes*	$ 6.5	$ 7.5	$ 6.6	$ 6.6	$ 6.6	$ 6.6
BSCA	$ 19.3	$ 19.3	$ 18.2	$ 18.5	$ 18.9	$ 19.3
# of FTEs	**196**	**201**	**194**	**194**	**194**	**194**
PCTEA	$ 17.3	$ 16.2	$ 17.6	$ 17.6	$ 17.6	$ 17.6
# of FTEs	**365**	**334**	**376**	**376**	**376**	**376**
BEST	$ 13.4	$ 13.4	$ 14.8	$ 14.8	$ 14.8	$ 14.8
# of FTEs	**687**	**698**	**718**	**718**	**718**	**718**
TAB*	$ 5.2	$ 5.2	$ 5.3	$ 5.6	$ 5.6	$ 5.6
Trades	$ 2.6	$ 2.7	$ 3.1	$ 3.2	$ 3.3	$ 3.4
# of FTEs	**29**	**28**	**33**	**33**	**33**	**33**
Local 264 (Blue Collar)	$ 3.0	$ 2.9	$ 2.8	$ 2.8	$ 2.8	$ 2.8
# of FTEs	**75**	**60**	**71**	**71**	**71**	**71**
Local 409 (Engineers)	$ 3.4	$ 3.4	$ 3.4	$ 3.4	$ 3.4	$ 3.4
# of FTEs	**61**	**54**	**58**	**58**	**58**	**58**
Board Members & Exempt Employees	$ 3.1	$ 2.9	$ 3.6	$ 3.6	$ 3.6	$ 3.6
# of FTEs	**34**	**32**	**38**	**38**	**38**	**38**
Total # of FTEs	**4,441**	**4,397**	**4,594**	**4,624**	**4,644**	**4,644**
Miscellaneous Items	$ 0.4	$ 0.5	$ 0.4	$ 0.4	$ 0.4	$ 0.4
Overtime	$ 2.1	$ 2.5	$ 0.9	$ 1.1	$ 1.3	$ 1.4
TOTAL EMPLOYEE COMPENSATON	**$ 255.5**	**$ 256.6**	**$ 268.8**	**$ 274.7**	**$ 279.5**	**$ 282.3**

**** The District does not provide FTE estimates for hourly, part-time positions.***

Staffing contrasts significantly from the FY 2015-16 Adopted Budget to the Adopted Budget. In the General Fund only, the number of budgeted positions has increased by 153 FTEs, from 4,441 FTEs to 4,594 FTEs. The increase includes 114 teachers, 12 white-collar employees, 4 exempt employees, 4 members of trades, and 30.5 teacher aides/teaching assistants while 12 FTE total reductions in budgeted administrators, operating engineers, and blue-collar employees.

Approximately half of the newly budgeted positions have been budgeted in support of Superintendent Cash's New Education Bargain. The remaining 76 FTE positions added have been budgeted in support of additional educational initiatives including expanding physical education for District students as part of year two of a five-year phase-in plan, additional English Language Learner ("ELL") teachers as required by New York State Education Department ("NYSED") Commissioner's regulations, and additional school-level special education positions.

On an All-Funds basis, total budgeted FTEs increase significantly from 5,283 FTEs in the FY 2015-16 Adopted Budget to 5,412 FTEs in the FY 2016-17 Adopted Budget. The proposed staffing in the Adopted Budget increases 50 FTE over the Financial Plan as 50 FTE teaching positions are added in support of continued phase-in of the District Superintendent's New Education Bargain.

Total Employee Compensation in the Adopted Budget is $268.8 million and increases to $282.3 million in the final year of the Financial Plan. This constitutes an increase of $13.5 million, or 5.0%, over the Financial Plan. The Financial Plan does not include any increases for employee

groups based on settling expired labor contracts. Any settlements for CBAs would likely increase the projected employee compensation expenditures in the Financial Plan.

BTF Compensation

The largest area of employee compensation is for teachers. It is the largest employee group for the District, representing 3,108, or 67.8%, of the total 4,594 budgeted FTE positions in the General Fund. General Fund expenditures for teacher compensation is budgeted at $192.0 million in the Adopted Budget and increases to $203.3 million, an increase of $11.3 million, or 5.9%, through the fourth year of the Financial Plan. The increase in teachers' compensation is projected based on annual step increases entitled to the members of the BTF, less natural attrition of the current workforce, as well as an increase of the aforementioned 50 FTE budgeted positions.

BCSA Compensation

The BCSA represents the District's unionized Administrators. Members of the BCSA represent 194.5 of the total 4,594 FTEs, or 4.2%, in the Adopted Budget. General Fund expenditures for BCSA compensation is budgeted at $18.2 million in the Adopted Budget and increases by $1.1 million, or 6.0%, to $19.3 million through the fourth year of the Financial Plan. The increase in BCSA compensation is projected solely on annual step increases provided to the Administrators less natural attrition of the workforce; the overall number of employees are budgeted a consistent level in each year of the Financial Plan.

PCTEA Compensation

PCTEA represents the white-collar employees of the District. Personnel costs total $17.6 million in the Adopted Budget and are held flat over the four years of the Financial Plan. The budgeted number of FTEs is flat at 376. Annual step increases are not projected as most members of PCTEA are at or near the highest salary step. Historical attrition for this employee group is very low.

BEST Compensation

BEST represents both Teachers' Aides (non-certified) and Teaching Assistants (certified by State) of the District. Personnel costs total $14.8 million in the Adopted Budget and are held flat over the four years of the Financial Plan. The budgeted number of FTEs is flat at 718. The CBA with BEST expired June 30, 2012. As with the other expired CBAs, any new CBA over the course of the Financial Plan would likely increase this expenditure.

Local 264 (Blue-Collar) Compensation

Local 264 represents the blue-collar employees of the District. Personnel costs total $2.8 million in the Adopted Budget and are held flat over the four years of the Financial Plan. The budgeted number of employees is flat at 71 FTEs. Annual step increases are not significant in that, as seen

with members of PCTEA, most employees are at or near the highest salary step attainable. Historical attrition for this group is also very low.

S/UB, TAB, Trades, Local 409 Operating Engineers, Exempts, and Board Member Compensation

All Other Employee Compensation expenditures include salary and wages for Substitute Teachers, Bus Aides, Trades, Operating Engineers, and Exempt employees. Board of Education member stipends as well as overtime and other miscellaneous forms of compensation are included within these expenditures as well. The District's Exempt employees and members of TAB are operating under current CBAs. Board members are elected officials and receive a $5,000 annual stipend. Trades employees receive annual salary increases as determined by local Prevailing Wage laws. Members of Local 409 and S/UB are operating under expired contracts.

Exempt employees are workers who are not represented by any collective bargaining unit. They are contracted individually, typically for 24 or 36 month terms. These expenditures are held flat in each year of the Financial Plan at $3.6 million.

Miscellaneous Compensation Items include non-instructional sick-leave replacement and grievance award. These expenditures are held flat in each of the four years of the Financial Plan at $0.4 million.

Overtime includes compensation to hourly employees who work beyond the regular work week. These expenditures total $0.9 million in the Adopted Budget and increase $0.4 million, or 45%, over the Financial Plan. The significant percentage increase over the four years reflects the BCSD's directive to significantly curtail overtime expenditures in the 2016-17 fiscal year. This initiative was not reflected in the three out-years of the Financial Plan.

The combined expenditures for All Other Employee Compensation categories are proposed at $23.4 million, and increase $1.0 million, or 4.3%, over the Financial Plan. The increases are due to the increases in projected overtime expenditures, annual wage increases for members of Trades groups as well as an increase in the number of Bus Aides beginning in the first out-year of the Financial Plan.

Most District employees are operating under expired collective bargaining agreements. The following chart provides a snapshot of the various employee groups, average FY 2016-17 salary and fringe benefits, and date of contract expiration:

Average Employee Salary & Total Compensation/Contract Status				
FY 2016-17 Employee Summary (Adopted Budget)				
Employee Group	FTEs	Average Salary	Average Total Compensation (FICA, Pension, Health Insurance, Supplemental Benefits)	Contract Expiration Date
	#	$		
BTF	3,108	61,792	88,311	6/30/2004
BCSA	194	93,911	126,656	6/30/2004
PCTEA	376	46,898	65,086	6/30/2013
BEST	718	20,605	39,081	6/30/2012
Trades	33	94,238	115,472	Prevailing Wage
Local 264 (Blue-Collar)	71	38,776	56,342	6/30/2013
Local 409 (Engineers)	58	58,988	78,026	6/30/2010
Exempt	29	126,184	149,862	Current
Board Members	9	5,000	5,383	N/A

Employee Benefits

Employee Benefits is the second largest expenditure category of the District and includes the cost to the District for all non-salary/wage-related benefits for employees such as the pension expenditures, healthcare and employer payroll taxes. The District has budgeted $193.5 million for Employee Benefits in the Adopted Budget. These expenditures increase by $21.4 million, or 11.1%, to $214.9 million over the Financial Plan.

Employee Benefits include payments for:

- The pension expense under the NYSTRS and NYSERS
- The employer portion of the payroll tax
- Health insurance for current and retired employees
- Termination Pay and other miscellaneous benefits

The following chart summarizes General Fund employee benefit expenditures in the Financial Plan and compares these amounts to the FY 2015-16 Adopted Budget:

General Fund Expenditures	2015-16 Adopted Budget	2016-17 Adopted Budget	2017-18 Outyear 1	2018-19 Outyear 2	2019-20 Outyear 3	$ Change from Year 1-4	% Change from Year 1-4
Employee Benefits	$ In Millions						
Civil Service Retirement	6.3	5.8	5.7	5.4	5.0	(0.8)	-13.4%
Teachers Retirement	27.7	26.0	23.7	22.0	21.1	(4.9)	-18.7%
Social Security	19.6	20.4	21.1	21.4	21.6	1.3	6.2%
Health Insurance (Active Employees)	54.7	55.3	62.1	65.2	68.1	12.8	23.1%
Health Insurance (Retired Employees)	68.5	69.7	72.9	77.5	82.4	12.7	18.2%
Termination Pay	4.1	4.0	4.1	4.1	4.1	0.1	2.5%
Other Benefits	12.4	12.3	12.5	12.5	12.5	0.2	1.4%
Total Employee Benefits	**193.1**	**193.5**	**202.0**	**208.0**	**214.9**	**21.4**	**11.1%**

New York State Pension

General Fund expenditures for NYSERS and the NYSTRS are budgeted at a combined amount of $31.8 million in the Adopted Budget and decrease by $5.7 million to a combined $26.1 million over the course of the Financial Plan. The District's FY 2016-17 rate for NYSTRS is 11.7%; the effective FY 2016-17 rate for NYSERS is 15.1%. These rates decrease to 9.5% and 11.9%, respectively, over the Financial Plan.

The District payment to the retirement systems is a function of the applicable contribution rates and the annual salaries of the employees. The rate of decrease for pension expenditures over the course of the Financial Plan is consistent with the long-term contribution rates which have trended downward from historical high contribution levels. As with employee compensation costs, the costs for pension contributions would be impacted by settled CBAs.

Payroll Taxes

The District's employer portion for payroll taxes remains at 7.65% of total budgeted Employee Compensation over the four years of the Financial Plan. It is budgeted at $20.4 million in FY 2016-17 and increases $1.3 million, or 6.2%, to $21.6 million by the fourth year of the Financial Plan. This increase is consistent with the static tax rates as well as the modest increase in employee compensation costs.

Active/Retiree Health Insurance

Health insurance for active employees is one of several major General Fund expenditures for the District. Health insurance for active employees is budgeted at $55.3 million in the Adopted Budget, which represents a $0.6 million, or 1.1%, increase from the 2015-16 Adopted Budget. The cost for health insurance for active employees increases $12.8 million, or 23.1%, over the course of the Financial Plan. Total active employee health insurance costs are a factor of the number of District employees and the increases in premium costs. The 2015-16 Adopted Budget included 4,441 FTE employees in the General Fund. The Adopted Budget includes 4,595 FTE employees within General Fund, an increase over the prior year of 154 FTEs. Additionally, the Adopted Budget assumes a 4.5% increase in the average health insurance premium cost for active employees.

A participation rate of 93% is assumed for all union and exempt employees, excluding member of BEST. A participation of 81% is assumed for members of BEST.

Employees other than BEST employees receive varying levels of health insurance coverage and contribute at varying percentage rates. For example, members of the BTF have the option of four health insurance plans and are not required to contribute to the cost of their health insurance premium. Both members of PCTEA and Blue-Collar employees have the option of two plans and must pay a portion of the premium's cost based on the individual's annual salary. The average premium cost in FY 2016-17 is $14,025, a $623 increase, or 5%, from FY 2015-16. Premium cost increases of 4.5% are projected in each of the three out-years of the Financial Plan.

The single-carrier health insurance plan covering BEST employees is an experience-rated plan and is managed by the union's administration. Employees are not required to contribute toward the cost of the premium. The FY 2016-17 premium cost is $13,935, a $663, or 5% increase, from the FY 2016 annual premium cost of $13,272. Premium cost increases of 4.5% are projected in each of the three out-years of the Financial Plan.

The District currently offers a single-carrier for health insurance. This has allowed the District to contain the growth in cost. However, this move from multiple carrier providers 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 also a major General Fund expenditure. While teacher and administrator retirees are required to enroll in Medicare Parts A & B upon eligibility, they continue to receive the same healthcare coverage previously received as active employees as they aren't required to make Medicare their primary insurance. These plans currently cost between $6,120 to $17,620 for single coverage and $13,566 to $40,800 for family coverage.

In 2015, the District reached out to qualified retirees receiving retiree health benefits to offer an incentive to forego the costlier traditional plan for a Forever Blue Medicare Advantage plan. The plan offered Medicare-eligible retirees and their eligible dependents an alternative plan that is less costly for the District to provide while adding benefits for the enrollee such as no-cost gym membership, eyewear and dental allowances, and no copays for routine physicals and other testing and screening.

The cost of this plan is significantly less than most of the District's traditional plans at $6,504 (in-network) to $7,260 (out-of-network). The number of retirees utilizing the Forever Blue Medicare Advantage Plan totaled 17 as of January 29, 2015. The number of enrollees as of January 29, 2016, was 410, largely due to the incentive offered. The incentive has allowed the District to curb the rate of growth in retiree health insurance expenditures. Retiree health insurance is budgeted at $73.1 million in the Adopted Budget, an increase of $4.6 million from the FY 2015-16 Adopted Budget. The expenditure increases $10.7 million, or 14.7%, to $83.9 million by the fourth year of the Financial Plan. This increase is consistent with the established contribution rates as well as the projected increase in the number of retirees receiving health insurance from 4,359 to 4,659.

The FY 2015-16 Adopted Budget assumed an average premium cost of $16,710 per retiree. The Adopted Budget assumes a slightly lower average premium cost of $16,700 for retirees. The average cost of the premium increases $2,086, or 12.5%, over the course of the Financial Plan, and assumes an annual net increase of 100 new retirees annually. As of January 29, 2016, actual retirees receiving District healthcare was 4,259. The District has included 4,359 retiree participants in the Adopted Budget, growing to 4,659 retiree participants by FY 2019-20. The

projections are deemed reasonable as the District projects the number of new retirees conservatively; actual new retirees tend to be somewhat less than projected.

All Other Fringe Benefits/Termination Pay

Termination Pay and All Other Fringe Benefits total a combined $16.3 million in the Adopted Budget, a decrease of $0.2 million from the combined $16.5 million included in the FY 2015-16 Adopted Budget. Termination Pay includes compensation to newly retired individuals or eligible terminated individuals for unused paid leave was well as payouts for early retirement incentives. All Other Fringe Benefits include supplemental benefits, workers' compensation costs, unemployment, and other minor fringe benefit costs. These combined General Fund expenditures are held flat over the four years of the Financial Plan.

The minor decrease in these budgeted expenditures as compared to the FY 2015-16 Adopted Budget is based on an updated CFY projection as well as the historical actual distributions for these expenditures: Termination Pay and All Other Fringe Benefits are projected to show a positive budgetary variance at the end of the CFY.

Debt Service

Debt Service payments are the third largest expenditure category and include the annual principal and interest payments that the District pays on its outstanding bonds. Debt Service expenditures are budgeted for FY 2016-17 at $117.1 million, and decrease $4.0 million, or 3.5%, to $113.1 million over the four years of the Financial Plan. As noted earlier, the annual amount of annual Debt Service expenditures is directly correlated to the annual amount of State Building Aid received, although it is noted that State uses an assumed debt service amortization schedule in calculating the annual State Building Aid. Debt Service includes the scheduled principal and interest payments on borrowings for capital improvements including work associated with the JSCB project.

Payments to Charter Schools

Charter School payments is the fourth largest expenditure category of the District and includes the portion of State Aid that the District is required to forward to area charter schools based on the New York State Charter School Tuition formula. The Charter School payment is budgeted at $109.6 million in the Adopted Budget and increases $15.8 million, or 14.5%, to $125.4 million over the course of the Financial Plan.

Payments to area Charter Schools represent a significant General Fund expenditure and reflect approximately 12.9% of the total Adopted Budget. As noted earlier, charter school payments represent the funds the District forwards to the area charter schools and is based on the number of students enrolled in charter schools at a rate established by the State. The increase is due to a combination of an increase in the projected number of students enrolled in Charter Schools and an increase in the per pupil tuition rate. This increase is reimbursable to the District in the following year in the form of Supplemental Charter Tuition Reimbursement.

The following chart depicts projected enrollment in Buffalo public schools, both District and charter:

Buffalo Resident Public School Enrollment	District/Agency School Enrollment	Charter School Enrollment	Combined Enrollment
FY 2015-16 (Adopted Budget)	34,340	8,025	42,365
FY 2016-17 Adopted Budget	33,400	8,278	41,678
FY 2017-18 (Projected)	33,300	8,668	41,968
FY 2018-19 (Projected)	33,300	9,036	42,336
FY 2019-20 (Projected)	33,300	9,221	42,521

The District is projecting a flat enrollment with the District schools, while projecting an increase of approximately 1,200 (15%) charter school students. The sizable increase in area charter school enrollment has been projected based on the expansion plans of existing charter schools as they add grade levels to meet their chartered plan (e.g., the Charter School of Inquiry was a K-2 grade school in FY 2015-16 and will be a K-6 grade school in FY 2019-20). Additionally, increased enrollment in a new charter school has been projected in FY 2017-18. The Elmwood Village Charter School #2 charter has been approved by the SUNY Charter School Institute.

Two additional charter school applications have been submitted to the New York State Board of Regents (REACH Academy and the Ellington Preparatory Academy of Arts and Sciences Charter School) as well as one additional charter school application to the SUNY Charter School Institute (ACE Charter School). If approved, the District's charter school enrollment could increase an additional 410 in FY 2017-18 and an additional 910 in FY 2019-20.

Transportation

Transportation expenditures constitute 5.7% of the District's total Adopted Budget. Transportation expenditures total $48.0 million in the Adopted Budget, an increase of $1.3 million, or 3.9%, from the FY 2015-16 Adopted Budget. Transportation expenditures increase $2.9 million, or 6.1%, to $50.9 million over the four years of the Financial Plan. Transportation Aid is received by the District at a rate of approximately 85% of the prior years' expenditures. Qualified expenditures for reimbursement include, but are not limited to, supplies and materials, insurance, salary and fringe benefits for bus aides providing services to Students With Disabilities, if the aid was required by the student's Individual Educational Plan, etcetera.

The District utilizes both private and public carriers for pupil transportation. The District approved a new transportation contract with Students First, a private carrier, in FY 2014-15 that extends to FYE 2020. Additionally, the District has an on-going contract with a public carrier, the Niagara Frontier Transportation Authority, to provide transit passes for pupils in grades 9 through 12. The contracts provide transportation for Buffalo resident pupils in public schools including District schools and area charter schools, non-public students, and agency and foster students.

All Other General Fund Expenditures

All Other Expenditures is the final expenditure subcategory and is a composite category that includes all General Fund expenditures other than those described above. It includes expenditures, tuition, contracts, textbooks and supplies, repairs and maintenance, and a contingency reserve.

The following chart summarizes All Other Expenditures as contained in the Financial Plan and includes for comparison purposes the FY 2015-16 Adopted Budget.

General Fund Expenditures	2015-16 Adopted Budget	2016-17 Adopted Budget	2017-18 Outyear 1	2018-19 Outyear 2	2019-20 Outyear 3	$ Change from Year 1-4	% Change from Year 1-4
All Other Expenditures	$ In Millions						
Utilities	9.7	8.7	8.8	9.0	9.2	0.5	6.1%
Tuition	33.4	33.6	34.6	35.6	36.7	3.1	9.3%
Contacts - Custodian	18.6	18.8	18.8	18.8	18.8	0.0	0.0%
Equipment	1.9	1.8	1.8	1.8	1.8	0.0	0.0%
Contracts - Misc. & Contingency	16.5	21.8	21.8	21.8	21.8	0.0	0.0%
Reserve for Contingency	3.0	2.0	3.0	3.0	3.0	1.0	50.0%
Rental Contracts	8.2	7.0	8.1	8.3	8.4	1.4	20.6%
Repairs & Maintenance	1.9	2.5	2.5	2.6	2.6	0.2	6.1%
Textbooks	3.5	3.4	3.4	3.4	3.4	0.0	0.0%
Supplies and Misc. Related Items	8.5	8.0	8.0	8.0	8.0	0.0	0.0%
Interfund Transfers	3.1	3.3	3.3	3.3	3.3	0.0	0.0%
Total Other Expenditures	**108.3**	**110.9**	**114.2**	**115.6**	**117.1**	**6.2**	**5.6%**

All Other Expenditures are budgeted at $110.9 million, an increase of $2.6 million, or 2.4%, over the 2015-16 Adopted Budget. All Other Expenditures increase $6.2 million, or 5.6%, to $117.1 million over the course of the Financial Plan.

<u>Utilities</u>

Utility expenditures total $8.7 million in the Adopted Budget, $1.0 million less than the FY 2015-16 Adopted Budget. This expenditure is projected to increase gradually by $0.5 million, or 6.1%, to $9.2 million over the four years of the Financial Plan.

<u>Reserve for Contingency</u>

The Reserve for Contingency expenditure was created in FY 2011-12. It is not a specific expenditures and was established as a contingency to cover revenue reductions and/or expenditure increases.

This expenditure is budgeted at $2.0 million in the Adopted Budget and increases to $3.0 million in FY 2017-18, consistent with the historical level that this expenditure has been budgeted at. It has been budgeted at a lower level in the Adopted Budget to reduce the FY 2016-17 operating deficit.

Tuition

The District's Tuition expenditure includes the costs for outside instruction including: payments to agencies to educate children with special needs, payments to other school districts to educate foster children who are Buffalo resident pupils, and college tuition for Middle Early College and DaVinci High School students attending classes at Erie Community College, Buffalo State College, and D'Youville College. The Adopted Budget includes $33.6 million in Tuition expenditures of which 93.1% relate to Agency instruction. The Adopted Budget increases this expenditure by $0.2 million from the FY 2015-16 Adopted Budget based on current enrollment and rates established by State. It is projected to increase by $3.1 million, or 9.3%, to $36.7 million over the Financial Plan.

Miscellaneous General Fund Expenditures

Miscellaneous General Fund expenditures include: contracts, equipment, repairs and maintenance, textbooks, supplies, and interfund transfers. These expenditures total $66.6 million in the Adopted Budget, $4.2 million, or 7.1%, greater than the FY 2015-16 Adopted Budget appropriated amount. They are projected to increase by $1.6 million, or 2.4%, over the Financial Plan.

Other Postemployment Benefits ("OPEB")

The District has significant accrued liabilities for post-retirement healthcare. Current reserves are insufficient to meet these costs.

State law does not currently authorize a governmental trust that entities could voluntarily contribute into to fully fund these long-term liabilities. The District provides OPEB benefits on a "pay-as-you-go" basis.

The District's annual expenditures for retiree healthcare are presently approximately $96 million less than what the actuarially-determined annual required contribution ("ARC") is to fund such a trust fund annually. As legislation has not been adopted establishing such a trust, the District may only assign fund balance for future OPEB costs, rather than into an actual trust fund dedicated for this liability. Such a designation is not binding as Assigned fund balance may be reallocated by District management.

As of June 30, 2015, the District had $38.4 million of fund balance assigned for OPEB. As of the last full valuation, the full liability was actuarially estimated at $1.9 billion.

10-Year General Fund Expenditure Changes

As a point of reference, the following chart compares actual FY 2010-11 total General Fund expenditures with those projected in FY 2019-20:

General Fund Expenditures	FYE 2010-11 (Actuals)	FYE 2015-16 (Adopted Budget)	FYE 2016-17 (Adopted Budget)	FYE 2019-20 (Projected)	10-Year Rate of Change	Average Annual Rate of Change
	$				%	
Employee Compensation	228.1	255.5	268.8	282.3	23.7%	2.4%
Employee Benefits	150.6	193.1	193.5	214.9	42.7%	4.3%
Debt Service	108.4	118.7	117.1	113.1	4.3%	0.4%
Charter School Payments	85.1	103.5	109.6	125.4	47.4%	4.7%
Transportation	36.1	46.7	48.0	50.9	41.1%	4.1%
All Other Expenditures	96.3	108.3	110.9	117.1	21.6%	2.2%
Total	704.6	825.8	847.9	903.7	28.3%	2.8%

Overall, the District is projecting an average annual growth in total General Fund expenditures of 2.8% from FY 2010-11 through FY 2019-20; however, there are substantial fluctuations within individual categories. While categories such as employee compensation, debt service and all other expenditures have a relatively low level of increase over the 10-year period there are substantial increases in Employee Benefits (42.7%), Charter School payments (47.4%) and Transportation (41.1%).

The increases in employee benefits are largely a reflection of health insurance (projected increase of $54.8 million) and pension costs (projected increase of $6.6 million).

The increase in charter schools is due to a combination of the increase in the per pupil contribution rate as well as the expansion of charter schools throughout the District; 6,871 students were enrolled in charter schools ten years ago as opposed to the 9,221 students that are estimated for 2019-20. The charter school movement remains strong. For example, the State recently approved the expansion of the West Buffalo Charter School by 250 seats and has approved the creation of a second Elmwood Charter school for up to 250 seats. There has been lobbying efforts made by the District to change the funding mechanism for charter schools but to-date there is no expectation that this will change in the near future.

The projected increase in transportation of $14.8 million from FY 2010-11 to FY 2019-20 is projected based projected fuel and maintenance costs as well as on the increased need for transportation services: The District provided transport services for approximately 46,500 District, Charter, Agency, and Non-public students in FY 2010-11. This number of pupil requiring services is projected to be approximately 47,500 by FY 2019-20.

Increases projected in the Financial Plan are reasonable given historical expenditures as well as know pension contribution rates. The rate of increase in total General Fund expenditures are projected to be curtailed as the rate of increase in Employee Benefits in particular is diminished.

It is noted that the number of employees budgeted in the General Fund in FY 2016-17 are at a level that are 463 FTEs, or 11.2%, greater than FY 2010-11 levels. The number of positions

funded through the General Fund continue to grow by an additional 50 FTEs over the Financial Plan to 4,644, which in an increase of 513 FTEs, or 12.4%, over the FY 2010-11 actual personnel level. Total FTEs have averaged 4,196 in the prior six fiscal years, with a low of 3,976 in FYE 2011-12.

Surplus/Deficit: A Ten-Year Snapshot

As noted earlier, the District has experienced annual deficits in the last four fiscal years. A deficit is projected in the CFY as well as in each year of the Financial Plan. The following chart depicts the actual and projected deficits and surpluses from FY 2010-11 through FY 2019-20:

BCSD 10-Year Surpluses/Deficits									
FYE 2010-11 (Actual)	FYE 2011-12 (Actual)	FYE 2012-13 (Actual)	FYE 2013-14 (Actual)	FYE 2014-15 (Actual)	FYE 2015-16 (Projected)	2016-17 Adopted Budget	2017-18 Outyear 1	2018-19 Outyear 2	2019-20 Outyear 3
$ in Millions									
728.2	721.2	752.5	764.0	787.6	813.5	843.0	860.9	881.4	901.6
704.6	735.7	765.5	778.7	790.2	819.0	847.9	869.8	888.8	903.7
23.6	**(14.5)**	**(12.9)**	**(14.6)**	**(2.6)**	**(5.5)**	**(4.9)**	**(8.9)**	**(7.4)**	**(2.1)**

FOOD SERVICE FUND

The District provides breakfast, lunch, and afterschool dinner to all District students as well as seven Buffalo charter schools, three non-public schools, and two out-of-District charter schools. The program is administered through the District's Food Service Fund.

The Food Service Fund totals $39.8 million in the Adopted Budget, an increase of $1.3 million, or 3.4%, from the FY 2015-16 Adopted Budget. This increase is attributed to increases in the costs of food supplies and commodities of $0.9 million and employee compensation of $0.2 million. Local 264 food service employees and cook managers are both under active contracts.

A building improvement and expansion project which began in FY 2015-16 as a one-time capital improvement project is planned to be extended in FY 2016-17 necessitating the draw-down of an additional $9.2 million in fund balance. Food Service Fund expenditures decrease from $39.8 million to $33.5 million, by $6.3 million or 15.8% over the four years of the Financial Plan.

Food Service Assigned fund balance totaled $20.6 million at June 30, 2015. It is projected to total $8.0 million at June 30, 2020, as $12.6 million of Assigned fund balance is appropriated for $8.3 million in the capital improvements previously noted and $4.3 million in appropriated to close projected operating deficits in each of the four fiscal years of the Financial Plan.

SPECIAL PROJECTS FUND

The Special Projects Fund includes grants from a variety of sources, though most are from either the Federal government of the State government. The Adopted Budget for the Special Projects fund totals $113.7 million. This is projected at a static level in each of the four years of the Financial Plan. No deficits are projected in any of the years of the Financial Plan. The fund is

largely self-sufficient; in the event that anticipated grant applications are either rejected, reduced, or require resubmission, mandated expenditures are funded via the General Fund.

CONCLUSIONS & RECOMMENDATIONS

The following is a summary of the conclusions reached in conjunction with the review of the District's FY 2016-17 Adopted Budget and related 2017-2020 Financial Plan:

1. The District's Financial Plan includes $3,486.9 million in revenue and $3,510.2 in expenditures, leaving an initial budgetary gap of $23.3 million. The District has projected to use $18.3 in fund balance, leaving a total remaining budgetary gap to be filled through various actions or items of $5.0 million.

In total, after eliminating speculative items, the PEG Plan provides $25.6 million of budgetary savings or additional revenues that effectively addresses the budgetary gap in total. All years of the Financial Plan are balanced.

2. The District has retained an amount in Unassigned fund balance that exceeds the minimum amount to be retained under the District's fund balance policy of 4% of total expenditures. Over the Financial Plan a total of $13.6 million of Assigned fund balance and $4.7 million of Unassigned fund balance is allocated towards closing the proposed budgetary gaps.

3. The Financial Plan does not include any increases associated with any new labor contracts; any additional costs associated with new contracts would place additional fiscal pressure on the District. The District has been out-of-contract with its largest union, the Teachers' union, and with the Administrators' union, both since June 2004. The Financial Plan will require modification to demonstrate affordability for any proposed labor agreement.

4. The District received an increase in State Aid, excluding State Building Aid, of $27.8 million for FY 2016-17 which is carried through the remaining out-years of the Financial Plan and has had a positive impact on the proposed operating results. The Financial Plan includes operating deficits in each fiscal year of the plan.

5. The District's main costs drivers throughout the Financial Plan continue to be in areas where the District has little control over including:

a. Employee compensation increases are largely the result of step increases within expired contracts that must be paid under the provision of New York State law. However, it is noted that the Financial Plan includes a substantial increase in staff. The employee compensation increases associated with these newly budgeted positions are an area where the District has direct control;

b. Health insurance increases for current active employees, many of whom do not contribute towards health insurance under current expired labor contract. Any new terms must be negotiated in future labor agreements;

c. Retiree health insurance increases for individuals who are retiring under terms of expired contracts, for which new terms will also need to be negotiated within new labor

agreements. It is noted that the District has recently gained more control over this cost driver via an incentive accepted by many retirees;

d. Pension expenditures remain at high rates. These rates are significantly lower than in the past few fiscal years but remain substantial;

e. Charter school expenditures remain at high levels.

Grant revenues administered by the Buffalo Urban Renewal Agency ("BURA") on behalf of the City of Buffalo (the "City") 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. In addition to the current grant awards, BURA also has the ability to draw down previously allocated funding that has not been expended from previous grant awards for program and administrative costs incurred in the current year. BURA's financial plan addresses the current year allocations as well as planned use of available prior year Community Development Block Grant ("CDBG") and Housing Opportunities Made Equal ("HOME") Program Funds resources. In addition, BURA can always increase the amount drawn-down from prior years for qualifying programs and expenditures based on programmatic need.

The Office of the City Comptroller's Department of Audit and Control is responsible for several functions related to program implementation of CDBG funds including review of subrecipient submissions for the drawdown of grant proceeds, the issuance of payments to local service providers under contract, monitoring contracts between BURA and its subrecipients, and the auditing of payments and invoices. These functions were handled by BURA directly until 2012-13, when such functions were moved to the City as a result of a directive issued by HUD. BURA has entered into a subrecipient agreement with the City of Buffalo in accordance with the HUD directive; the subrecipient agreement is renewed on annual basis once the HUD entitlement is received by the City.

In 2013, three staff positions were added to the Office of the City Comptroller's Department of Audit and Control. These positions are funded by CDBG funds, subject to the administrative cost limitations as per grant requirements, and all three positions are currently filled.

Per the subrecipient agreement with the City, BURA has direct control only over a portion of the HUD entitlement funding. BURA's Board of Director's approved the 2016-17 budget on May 26, 2016. There will be a brief discussion on total HUD entitlement funds being received by the City; this includes a portion of funds that are passed through to BURA as well as the funds maintained by the City. The focus of this report will be on those funds received and reported on by BURA.

Population is a major factor used within the allocation formulas in determining the amount of grant funding; it is noted the City had a population decrease of 31,338 people, or a decline of 10.7 percent, reported with the 2010 census results. The reduction in population has had a negative impact on the amount of funding provided by HUD, which has been reduced over the last several years; the out-year projections do include reductions in total but at a reduced rate as compared to what had been projected in past years. The notice of funding from HUD for the 2016-17 year has been received.

It is noted that the 2015-16 entitlement funds award notice was received in a timely manner for the current fiscal year ("CFY") ending June 30, 2016; however, the release of funds from HUD to the City was delayed by approximately four months. BURA officials have indicated that no explanation as to why there was a delay was provided from HUD. The lack of timely release of such funds resulted in cash flow timing issues; BURA was able to draw on prior year allotments to fund current year operations.

The following is a three year comparison of total HUD funding by major grants as awarded to the City. BURA is the main subrecipient for the administration and management of federal entitlement grants and will receive approximately $7.2 million of the 2016-17 grant award amount. The grant allocation is reflective of that year's funding and does not include any prior year awards:

	Amount of Grant Award		Increase/	
	2016-17	2015-16	(Decrease)	
	$	$	$	%
Grant:				
Community Development Block Grant	12,543,125	12,635,721	(92,596)	-0.7%
HOME	2,401,418	2,398,152	3,266	0.1%
Housing Opportunities for Persons with Aids	557,911	546,763	11,148	2.0%
Emergency Shelter Grants	1,137,467	1,159,066	(21,599)	-1.9%
	16,639,921	16,739,702	(99,781)	-0.6%

	Amount of Grant Award		Increase/	
	2015-16	2014-15	(Decrease)	
	$	$	$	%
Grant:				
Community Development Block Grant	12,635,721	13,003,257	(367,536)	-2.8%
HOME	2,398,152	2,711,001	(312,849)	-11.5%
Housing Opportunities for Persons with Aids	546,763	549,691	(2,928)	-0.5%
Emergency Shelter Grants	1,159,066	1,090,546	68,520	6.3%
	16,739,702	17,354,495	(614,793)	-3.5%

	Amount of Grant Award		Increase/	
	2014-15	2013-14	(Decrease)	
	$	$	$	%
Grant:				
Community Development Block Grant	13,003,257	13,423,963	(420,706)	-3.1%
HOME	2,711,001	2,627,890	83,111	3.2%
Housing Opportunities for Persons with Aids	549,691	524,721	24,970	4.8%
Emergency Shelter Grants	1,090,546	971,690	118,856	12.2%
	17,354,495	17,548,264	(193,769)	-1.1%

As per the schedule above, HUD funding to the City has stabilized with a minor reduction of $99,781, or 0.6 percent, as compared to last year's allocation. Since 2013-14, total HUD grant funding has decreased $908,343 or 5.2 percent. The year-to-year reduction is fairly minimal at $100,000 or a decrease of 0.6 percent. The reduction in funding is due in part to reductions in the overall level of federal funding over this period as well as the impact from the population decrease reported for the City in the 2010 census. Over the three-year period CDBG was reduced $880,800, or 6.6 percent, HOME was reduced $226,470, or 8.6 percent, whereas Housing Opportunities for Persons with AIDS ("HOPWA") increased $33,190, or 6.3 percent, and Emergency Solutions Grants ("ESG") increased $165,777, or 17.1%.

The following schedule provides a summary of the 2017–2020 Financial Plan which is developed based on the grant year (October 1 – September 30), beginning with Program Year 42 (2016-17). It is noted that BURA is including prior year entitlement allocations as a current year resource, specifically for CDBG and HOME Funds. It's further noted that BURA's administrative expenses are reflected in both Program Costs and Administrative and Planning costs. The following schedule reflects only the funds that BURA manages, and not the entitlement funds that are managed by the City.

	2016-17 Budget $	2017-18 Projected $	2018-19 Projected $	2019-20 Projected $
Grant Revenues:				
CDBG	3,653,808	3,352,697	3,286,698	3,211,698
CDBG Prior Years	3,960,973	1,217,936	1,117,566	1,095,566
CDBG Interest/Rental Income	264,225	300,000	307,500	315,000
HOME	1,801,064	1,803,314	1,803,314	1,803,314
HOME Prior Years	7,382,576	2,882,576	1,500,000	1,500,000
ESG	63,983	63,113	62,306	62,306
HOPWA	12,553	12,703	12,853	12,853
CDBG Program Income	485,775	525,000	592,500	660,000
HOME Program Income	90,000	93,750	97,500	101,250
Evans Fund	220,000	237,500	-	-
Justice Assistance Grant	76,514	76,514	76,514	76,514
General Fund Revenues	534,000	534,000	534,000	534,000
Total Revenue	18,545,471	11,099,103	9,390,751	9,372,501
Expenditures:				
CDBG Crime Prevention	106,725	106,725	106,725	106,725
CDBG Emergency Loan Program	1,562,115	1,487,115	1,494,615	1,494,615
CDBG Program Delivery	703,500	703,500	703,500	703,500
HOME: CHDO set aside @ 15%	270,225	270,497	270,467	270,467
HOME Program Delivery	412,500	412,500	412,500	412,500
HOME Program Costs	1,019,233	1,024,360	1,026,491	1,030,241
Evans Fund Program Costs	209,000	225,625	-	-
Entitlement Prior Year Allocation-Program Related	10,512,780	3,355,512	2,017,566	1,995,566
Total Program Costs	14,796,078	7,585,834	6,031,864	6,013,614
BURA Administrative and Planning Costs:				
Personal Services	2,201,414	2,234,436	2,267,953	2,267,953
Fringe Benefits	1,100,707	1,117,218	1,133,976	1,133,976
Less Program Delivery and JAG	(990,014)	(1,090,014)	(1,302,514)	(1,302,514)
Services & Supplies	1,437,286	1,251,629	1,259,472	1,259,472
	3,749,393	3,513,269	3,358,887	3,358,887
Total Expenditures:	18,545,471	11,099,103	9,390,751	9,372,501
Excess (Deficiency) of Revenues over Expenditures:	$0	$0	$0	$0

Total projected grant revenues are $18.5 million for 2017, representing a decrease of $2.5 million (4.7 percent) from the 2016 budgeted amount of $21.0 million. The significant decrease is attributed to the decrease in the amount of prior year entitlement funds being used on a year-to-year basis, which is reduced by $2.4 million. As noted previously, the total annual grant awards from HUD decreased $100,000 from last year.

Over the four years of the Financial Plan as presented, grant revenues and grant expenditures are projected to decrease substantially by $9.2 million, or 49.5 percent. The decrease of grant revenues over the Financial Plan is reflective of the spend down of prior year entitlement funds. As BURA spends the remaining balances of prior year allocations, the resource is no longer available, and eventually all remaining balances will be fully disbursed. As the prior year allotments are reduced going forward, it leaves the new entitlement funds as the primary revenue source for BURA. As noted previously, grant expenditures are limited to the amount of the grant awards. The revenue categories and related projections over the financial plan are as follows:

- Community Development Block Grant ("CDBG") – CDBG funds represent the most significant revenue source to BURA and include current year as well as prior year allotments; combined it comprises 41.1 percent in 2016-17 and increases to 46.0 percent in 2019-20 of total grant revenue. As previously noted, current year entitlement CDBG, funding to the City is decreasing by $92,596 (0.7 percent) in 2016-17 as compared to the prior year. BURA has decreased the new annual entitlement over the course of the financial plan with a reduction of $442,110, or 12.1 percent by FY 2020. Prior year CDBG funds decrease significantly from $4.0 million in FY 2017 to $1.2 million in FY 2018, $1.1 million in FY 2019, and $1.1 million in FY 2020. Future decreases would place additional pressure on BURA's program delivery as well as on the ability to maintain administrative and planning costs.

  Administrative costs are limited to a maximum allowable percentage of each grant award and the total amount that could be spent on such costs is impacted by reductions to such grants awards. The larger social and city-wide issues are challenging, and are driven by policy as implemented by BURA's Board of Directors.

- Housing Opportunities Made Equal ("HOME") Program Funds – The annual award to the City of this amount has been held flat at $2.4 million as compared to last year. Similar to CDBG, BURA has included both a current year allotment as well amounts for the use of prior year HOME Funds. BURA has included $1.8 million annually over the 2017-2020 Financial Plan. The amount budgeted for prior year HOME funds is $7.4 million in 2016-17, decreasing substantially to $2.9 million in 2017-18 and $1.5 million for both FY 2019 and FY 2020. The net total of current year and prior year HOME funds is $9.2 million in 2016-17 and is projected to decrease over the course of the Financial Plan to $4.7 million in 2017-18 and $3.3 million in the two remaining out-years. The decrease of prior year HOME funds is reflective of BURA spending down unspent balances of prior year entitlement funds. These are non-recurring resources and will not be replaced once depleted. BURA will need to determine how it will maintain current staffing levels in light of revenue decreases. Since 2013-14, annual HOME funding has decreased $226,472, or 8.6 percent. Total HOME funds represent approximately 35-50 percent of total BURA revenue over the course of the Financial Plan. Similar to CDBG funds, HOME funds have been reduced in recent years, however new allocations are held flat over the Financial Plan, with projected reductions of prior year resources decreasing over the Financial Plan.

- Housing Opportunities for Persons with AIDS ("HOPWA") has increased $11,148, or 2.0 percent, to the City on a year-to-year basis. Since FY 2014 HOPWA funding has increased by $33,190, or 6.3 percent. This is not a significant funding source to BURA. BURA management has projected constant funding levels of approximately $13,000 annually over the financial plan.

- Emergency Solution Grants ("ESG") have decreased by approximately $21,600 to the City and have been reduced by $1,200, or 1.8 percent, to a total of $64,000 for BURA. This is not a significant funding source to BURA and represents approximately 2.4 percent of BURA grant revenue per year. BURA management has projected this funding source to remain flat over the course of the Financial Plan.

- BURA generates program income from the CDBG and HOME programs which must be used for program eligible expenditures. In addition to program-generated revenue, such as repayment of loans, program income also includes other transactions such as the sale of real estate. BURA management has projected program income based on expectations of receipts as well as other transactions including the sale of real estate. In 2016-17, CDBG program income is budgeted at $485,775 and increases annually over the Financial Plan to $525,000 in 2017-18, $592,500 in 2018-19 and $660,000 in 2019-20. CDBG interest/rental income is also projected to increase annually over the Financial Plan from $264,225 for 2016-17, increasing to $300,000 in 2017-18, $307,500 in 2018-19 and $315,000 in 2019-20. HOME program income is budgeted fairly consistently over the Financial Plan at $90,000 in 2016-17, increasing to $93,750 in 2017-18, $97,500 in 2018-19, and $101,250 in 2019-20.

- Other revenue sources include General Fund revenues, and includes revenue from property rentals, parking and other smaller revenues, which are held flat at $534,000 over the course of the Financial Plan. The Justice Assistance Grant ("JAG") is held flat over the Financial Plan at $76,514. There is a new grant referred to as the Evans Fund, which is a two-year initiative supported and funded by Evans Bank. Evans Bank has committed $220,000 in 2016-17 and $237,500 in 2017-18 for a total of $457,500 to be used for various programs including programs such as weatherization assistance, homebuyer education workshops, and a down-payment closing cost assistance program.

Total revenues (including program income and prior year allocations of program funds) and expenditures are projected to decrease by $13.9 million, or 42.9 percent, in 2016-17 as compared to the prior year. The reduction is directly related to timing and the draw down of resources for projects in regards to prior year entitlement funds. As of March 31, 2016, only 45 percent of budgeted expenditures had been disbursed, and any funds not utilized will be rolled to future years. The overall decrease most likely will not be as large as budgeted due to the timing of current projects. Any portion of projects that are not expended in the current fiscal year 2015-16 will be rolled into fiscal year 2016-17 as prior year funds. Management at BURA is continuously trying to identify potential new revenues, understanding that once prior-year funds are fully disbursed, they only have new allotment of entitlement funds and program income to fund BURA operations.

Expenditures include both Program Costs and the Administrative and Planning costs incurred 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 percent of

the total grant, with a 15 percent cap on the public service cost, plus any program income generated; the cap for the HOME program is 10 percent of the grant award plus any program income that is collected; ESG caps the amount at 7.5 percent; and, HOPWA caps the amount at 3 percent. Administrative costs as included in the Financial Plan are limited to these amounts.

The Financial Plan includes forty-three budgeted positions with salaries of approximately $2.2 million increasing to $2.3 million over the course of the Financial Plan; this number of positions is held constant over the Financial Plan with the acknowledgement by BURA management that depending on the level of grant awards in the future, this number may not be able to be maintained and the number of positions will be adjusted as necessary. The number of budgeted positions is held flat compared to FY 2016, currently forty-one out of forty-three positions are filled. It is noted the number of budgeted positions have decreased significantly over the past few years; in 2012-13 BURA had budgeted for 60 positions. The decrease in the number of positions is largely reflective of reduced federal funding. There are no projected savings from not filling the vacancies; the funds are only drawn down and utilized if the position is filled.

BURA's employees are covered by one collective bargaining unit being the Civil Service Employees Association, Local 815. The last labor agreement was settled in May 2015 and expires June 30, 2017. In addition to the covered employees, BURA management extends the same collective bargaining agreement ("CBA") provisions to exempt employees. There are thirty-four budgeted classified employees and nine exempt employees for a total of forty-three FTE's within the 2017-2020 Financial Plan.

Increases were determined to be reasonable and cover the time-period of 2013-14 through 2016-17. Fiscal Year 2016-17 is the final year of the current CBA and includes the final negotiated salary increase of 1.75 percent in 2016-17. BURA has demonstrated that it has adequate resources available to pay for the salary increases as well as the expected fringe benefits increase. However, if there are significant reductions to future entitlement grants BURA may not have the necessary resources to cover payroll and be in compliance with the administrative cap amounts. BURA has acknowledged that it may 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 previously discussed. BURA is anticipates attrition through retirement as well as moving some employees from BURA to other City departments; these actions are not reflected in the budget at this time.

As previously noted there are three positions located in the City Comptroller's Office Department of Audit and Control which are responsible for the financial transactions of the CDBG funds.

Other notable items include:

- BURA does not participate in the City of Buffalo's self-funding of health insurance. It was determined that BURA will maintain the current coverage through Blue Cross Blue Shield. BURA is currently in the process of reviewing health insurance options available to BURA employees and is currently working with an outside consultant to identify cost-savings measures.

- BURA is projecting to pay off the Section 108 Loan guarantees in July 2016; prior to this action BURA forecasted to utilize between $750,000 and $1.2 million annually of its CDBG allocation to pay off prior Section 108 Loan guarantees, which were in default by those the funds were originally loaned to. As BURA guaranteed these loans, BURA was required to make payment on them using the CDBG funds. Approximately $6.0 million of principal was outstanding at the beginning of 2015-16, with a significant amount attributed to the principal outstanding on defaulted loans. The total amount was projected to be fully paid off by June 30, 2020, however due to the increase in program income derived from property sales, BURA elected to accelerate the payoff of this item.

- BURA management has indicated that it intends to continue in its efforts to strategically assess the real property portfolio and sell properties to reduce overall maintenance and management costs. BURA holds approximately 80 properties valued at approximately $3.9 million, which are held for redevelopment in accordance with grant regulations.

- New annual HUD grant awards are largely held flat for BURA, with moderate reductions in CDBG funds occurring across the Financial Plan. The significant decrease year-to-year is in relation to the prior year allotments and the spend down of those funds. If there is a decrease in funding, fewer projects will be able to be completed and the available amount for administrative costs also decreases, placing additional pressure on BURA to accomplish more with fewer employees.

Conclusion:

BURA has submitted a balanced 2017-2020 Financial Plan. The level of grant funding will be monitored by BURA and City personnel on an ongoing basis. BFSA recommends that the Budget and Financial Plan be monitored closely as any additional revenue decreases would place additional pressure on BURA and may require staffing reductions. The BFSA also recommends that BURA develops an annual cash flow to monitor revenue and expenditures over the course of the year and modify it as necessary in the quarterly reports.

Over the course of the Financial Plan, there are substantial decreases in revenue projections. The decreases are reflective of the spend-down of prior year entitlement funds as well as projected reductions to new entitlement funds. The reductions in revenue will limit BURA's ability to deliver new programming or services and hinder the work it already does. Once all of the prior-year allotments are fully expended, BURA will only have the new annual entitlement fund allotments to draw from. BURA's focus is on program delivery and they are looking at ways to limit the increase in administrative costs, including potentially elimination of positions and reducing fringe benefits, primarily through reductions in health insurance costs.

There are concerns in regards to BURA having the appropriate resources to maintain the current staffing level. BURA may be overstating projected revenues in the out-years of the Financial Plan as BURA utilizes a larger portion of prior year funds in the first two years of the Financial

Plan as compared to the last two years. As expenditures are limited to revenues, BURA management will need to address this situation in the future if there is in fact a reduction to revenues, and closely monitor their employee compensation in relation to the various administrative caps associated with the appropriate entitlement funds. If total revenues continue to decrease BURA may be required to reduce the number of employees and corresponding fringe benefits to meet the administration caps, and stay within the allotted budget amount.

OVERVIEW

The City of Buffalo (the "City") submitted the Buffalo Municipal Housing Authority's 2017-2020 Financial Plan (the "Financial Plan") to the Buffalo Fiscal Stability Authority ("BFSA") on April 29, 2016. The 2016-17 budget was approved by the Board of Commissioners of the Buffalo Municipal Housing Authority (the "BMHA") on April 21, 2016. The 2017-2020 Financial Plan has not yet been reviewed by the BMHA's Board of Commissioners.

The BMHA utilizes information obtained from industry-related resources in developing key underlying assumptions to project estimated revenues and expenses. As in the previous year, the Financial Plan includes the Marine Drive Apartments and the U.S. Department of Housing and Urban Development ("HUD") Section 8 Voucher Program ("Voucher Program").

PRIOR-YEAR OPERATING RESULTS AND CURRENT YEAR PROJECTIONS

The BMHA's budgetary financial results for the year ended June 30, 2015, as reported by BMHA, including the Marine Drive Apartments and the HUD Section 8 voucher program, reflected a net income (excluding depreciation and debt service) of $882,400 as compared to the modified budgeted net income of $765,000, representing a favorable variance of $117,400. Actual revenues were less than the modified budget by $1.4 million (3.1%) due to a combination of the following: a positive variance for the HUD Operating Subsidy of $414,800 (2.4%); rental income was $59,600 (0.5%) lower than budget due to overall higher vacancies than anticipated, and; Section 8 voucher revenue was $367,700 (7.1%) less than budgeted. With respect to expenses, BMHA expenses were less than the 2015 budget (after budget modification) by approximately $1,562,900 or 3.4%.

For the year ended March 31, 2015, Marine Drive Apartments experienced a $328,500 net income (excluding depreciation and debt service) on operations. Rental income is the most significant revenue for the Marine Drive Apartments at $3,125,600, or 97% of total revenues.

The HUD Section 8 Voucher Program reported $28,400 of net loss on HUD voucher income of $1,788,300 for that same time frame. BMHA management has indicated that recently it has not been unusual for HUD to underfund the reimbursement to housing developments for Section 8 reimbursement. The Voucher Program does ultimately self-balance as BMHA receives housing vouchers, remits such housing vouchers, and maintains an administrative fee for implementing the program; any reported net income or net loss is therefore temporary and a factor of timing.

With respect to projections for the current fiscal year ending June 30, 2016, it is estimated that on a combined basis BMHA will report a net income of approximately $340,000.

FINANCIAL PLAN SUMMARY

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

				2016								
		2015		Original		Financial Plan						
		Actual		Budget		2017		2018		2019		2020
		($ in millions)										
Total operating revenues	$	45.1	$	43.1	$	45.7	$	46.1	$	46.5	$	46.9
Total operating expenses		44.2		41.2		43.9		44.2		44.7		45.2
Excess (deficiency) of operating revenues over (under) total operating expenses		0.9		1.9		1.8		1.9		1.8		1.7
Less: debt service (principal)		(1.2)		(1.2)		(1.2)		(1.2)		(1.2)		(1.2)
Net income (loss) less debt service	$	(0.3)	$	0.7	$	0.6	$	0.7	$	0.6	$	0.5

The balances reported above include all BMHA's operations, including Marine Drive Apartments and the HUD Section 8 Voucher Program.

Operating revenues in total are budgeted to increase $2.6 million, or 6.0%, for fiscal year 2017 as compared to the 2016 budget. For the remaining years of the Financial Plan, revenues are projected to increase each year from $45.7 million in fiscal year 2017 to $46.9 million in fiscal year 2020, representing an increase of $1.2 million or 2.6% over the four-year period.

Management of the BMHA continues to factor in the effect of the reduction in funding from the federal government in the 2017 budget and the 2017-20 Financial Plan. BMHA continues to reduce the number of manpower budgeted by 9 (from 182 budgeted positions in 2015-16 to 173 in 2016-17), which is carried forward throughout the Financial Plan; see "Workforce Summary" for additional detail.

As a result of the reduction in budgeted positions, salaries and fringe benefit expenses are budgeted to decrease in 2017 to $18.0 million from the 2015 actual of $18.9 million, representing a total decrease of $0.9 million, or 4.6%. Salary and fringe benefit expenses are projected to increase from $18.0 million in fiscal year 2017 to $18.8 million in fiscal year 2020, an increase of $0.8 million over this time period, or 4.1%.

With respect to operating expenses, the BMHA has applied an inflation factor of 3.0% for utilities and for active employee fringe benefits (including both retiree health insurance and the

accrual for other postemployment benefits) and zero inflation for all other expense categories. The total budget for salary expense over the four year period is flat – i.e., no increase. The BMHA has not budgeted any increase in personal service expenses as all labor contracts have expired. Fringe benefits include primarily employer taxes, health insurance for active employees, the annual accrual for other postemployment benefits, pension costs and compensated absences; other minor benefits are also included. The annual accrual for other postemployment benefits does not represent a cash outlay but rather represents an estimated future amount to be paid.

The BMHA had purposely spent down reserves over the last several years in order to reduce the possibility of being required to return such funds to HUD. The guidelines as issued by HUD recommend that four months of operating expenses be maintained as reserves for asset management. This amount was equivalent to $9,168,200 for AMP's for 2016. The actual AMP reserve balance on July 1, 2015 was $3,321,807. It is noted that these guidelines don't apply to the central office operations. The Financial Plan has been prepared without the use of any reserves, and is intended to assist the BMHA in rebuilding the reserves to the level as recommended by HUD.

OPERATING REVENUES

The following chart summarizes operating revenues within the Financial Plan:

	Financial Plan - Revenues (in millions)			
	2017	**2018**	**2019**	**2020**
	$	**$**	**$**	**$**
Operating Subsidy	17.6	18.0	18.3	18.7
Dwelling Rental Income	13.9	13.9	13.9	13.9
HUD PHA Grants – Vouchers	5.8	5.9	6.0	6.2
Transfers from Capital Grants	2.9	2.8	2.7	2.6
Other	5.5	5.5	5.6	5.5
Total Revenues	45.7	46.1	46.5	46.9

The most significant components of operating revenue include the Operating Subsidy and Dwelling Rental Income, which on average over the Financial Plan represents 39% and 30% of total revenues, respectively. An Operating Subsidy funding level of 88% is budgeted for 2017 and is applied consistently over the Financial Plan with a 2.0% inflationary amount projected. HUD has been funding the subsidy between 82% and 93% over the last five years, and the funding level of 88% is based on the most recently published federal budget. BMHA historically has conservatively projected this amount lower than actual due to the uncertainty of housing appropriations as finalized by Congress.

Dwelling Rental Income is budgeted at $13.9 million for 2017 and held flat for the remaining three years of the Financial Plan; of this amount approximately $10.2 million is budgeted for BMHA housing and $3.7 million is budgeted for the Marine Drive Apartments. Actual total Dwelling Rental Income for the year ended June 30, 2015 was $12.7 million. Based on 2015 actual revenue, the budgeted amount for 2017 appears reasonable and is carried throughout the Financial Plan. Included in the Financial Plan is the disposal of A.D. Price and Commodore Perry Homes under the Rental Assistance Designation (RAD) program. This effort will result in the occupancy rate at 95% used throughout the Financial Plan. The 95% occupancy rate is comparable to historical rates and is calculated by the BMHA based on number of units that are available to be rented.

HUD PHA Grants – Vouchers is budgeted at $8.2 million for 2017 and increases by 2% in each of the out years of the Financial Plan. In addition to operating BMHA owned housing locations, the BMHA also administers the Section 8 Housing Voucher Program for HUD. Under this program, a qualified individual may select a stand-alone location to rent that is eligible for Section 8, under existing HUD regulations. The BMHA pays the landlord the subsidized rental amount each month. BMHA should then be reimbursed by HUD; however, BMHA management has indicated that recently HUD has reduced payments for reimbursement for subsidized housing however this shortage is temporary. There is no impact from this policy on BMHA's operations as this is a function of timing.

Transfers from the Capital Grants 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 in total is budgeted from $2.5 million to $2.7 million annually over the Financial Plan. The actual amount received in 2015 was $2.5 million, and it is noted that this amount will fluctuate depending on the annual capital grants awarded and expensed. This revenue represents the transfer of grant funds for the reimbursement of expenses.

Other operating revenues include non-dwelling rental income, interest income, fees for services, administrative fees for development, administrative fee reimbursement associated with the HUD Section 8 Housing Voucher Program and other miscellaneous income. These revenues are budgeted in total at $5.5 million, of which $752,000 represents the HUD Housing Voucher Program administrative reimbursement, and represent 1.5% of total budgeted revenues in 2017. This amount is increased 2% each year over the Financial Plan.

OPERATING EXPENSES

Total 2017 budgeted operating expenses are $43.9 million, budgeted debt service payments are $1.2 million, resulting in total projected expenses plus debt service of $45.1 million. In 2017, operating expenses are projected to increase compared to the 2016 modified budget by $0.2 million (0.5%), due to tight cost control as described earlier in this narrative. The budget increases in 2018 by $271,500 (.6%), $468,300 (1.1%) in 2019 and $481,200 (1.1%) in 2020.

The following summarizes the operating expenses as included within the Financial Plan:

			Financial Plan			
	Actual 2015	**Modified Budget 2016**	**Budget 2017**	**Projected 2018**	**Projected 2019**	**Projected 2020**
			($ in millions)			
EXPENDITURES:						
Administrative	$ 8.5	$ 7.5	$ 8.7	$ 8.5	$ 8.5	$ 8.5
Tenant Services	0.7	0.7	0.7	0.6	0.6	0.6
Utilities	6.4	7.0	6.0	6.2	6.3	6.5
Ordinary Maintenance	8.7	8.7	8.9	8.9	8.9	8.9
Protective Services	0.7	1.0	1.0	1.0	1.0	1.0
Other General Expenses	19.2	18.8	18.6	19.0	19.4	19.7
Total expenses	$ 44.2	$ 43.7	$ 43.9	$ 44.2	$ 44.7	$ 45.2

The BMHA has demonstrated a positive cash flow within the Financial Plan to pay the principal on debt with current proceeds.

The BMHA has applied an inflation rate of 3% for utility costs, fringe benefit costs and OPEB legacy costs. No inflation factor was applied to all other expense categories. There are no increases in wages and salaries and all collective bargaining agreements had expired as of June 30, 2013.

Salaries and fringe benefits, including retiree benefits, comprise approximately 41% of total operating expenses. Personnel costs are being reduced by $876,000, or 4.6%, in 2017 as

compared to the actual 2015 expenses. The number of budgeted positions is being reduced by 9 from last year, from 182 budgeted positions in 2016 to 173 budgeted positions in 2017. The decrease is largely an elimination of vacant positions. Total budgeted dollar amount of salaries are held flat over the remaining years of the Financial Plan.

It is noted that BMHA anticipates a 3.0% increase in active employee health insurance premiums in 2017 and each of the out-years. BMHA has also included a 3.0% increase for retiree health insurance expense, which equals a little over $3.0 million annually.

Total salaries and fringe benefits for all departments and retirees are budgeted at $18.0 million, $18.3 million, $18.5 million and $18.8 million respectively for 2017, 2018, 2019 and 2020.

Major expense line items and the projections included within the Financial Plan are as follows:

Administrative

Administrative costs comprise approximately 19.3% of total projected annual operating expenses within the Financial Plan. Administrative salaries are budgeted to increase $409,700, or 12.0%, from the 2016 modified budget to the 2017 budget and then remain flat over the four-year period. Other administrative expenses excluding salaries and fringe benefits are budgeted at $4,860,300 for 2017, which represents an increase of $807,900 as compared to the 2016 modified budgeted amount. This amount remains flat over the remaining three out-years of the Financial Plan.

Any increases in salaries and fringe benefits above what is budgeted for 2017 over the four-year financial plan will put pressure on the Financial Plan, as there have been no increases projected for salary expense and only a 3% increase for fringe benefits.

Ordinary Maintenance

The largest expense category is Ordinary Maintenance which represents approximately 20.0% of total annual projected operating expenses over the Financial Plan. Total projected expenses for the out-years of 2018 through 2020 remain flat over the four years of the Financial Plan. The 2017 budget of $8.9 million is higher than the 2015 actual amount by $183,700, or 2.1%. Maintenance expenses are budgeted to increase $164,700 or 1.9% from 2016 modified budget to 2017 budget. Maintenance materials and maintenance contracts are budgeted flat annually for 2018 through 2020.

Total maintenance salaries are budgeted to increase $515,500 (15.4%) from 2016 modified budget to 2017.

Utilities

Utility costs represent the third largest expense category and represents 14.0% of total annual projected operating expenses over the course of the Financial Plan. Utilities are budgeted at $6.0 million for 2017 and increase 3.0% annually to $6.5 million in 2020. The annual budgeted increase is approximately $170,000.

Actual utility expenses for 2015 were $6.4 million. Utilities were budgeted at $7.0 million for the 2016 modified budget and are projected to be higher than that. BMHA continuously states that the organization is benefiting from major energy projects designed to control their utility expenses and experiencing significant savings. It is noted that this area is reimbursed through the HUD Operating Subsidy, although there is a lag in time for reimbursement of increases.

Utilities are budgeted at a decrease of $1,004,500 (14.3%) in 2017 as compared to the 2016 modified budget. It appears that the 2016 modified budget has been over budgeted thus the decrease in the 2017 budget.

Other General Expenses
The Other General Expenses category constitutes approximately 43.2% of the total projected operating expenses over the Financial Plan. The more significant items in this category includes fringe benefits, retirees' health insurance, the annual accrual for Other Postemployment Benefits ("OPEB"), HUD Voucher payments, interest expense, workers' compensation, and insurance among other smaller budgeted and projected expense categories.

With respect to health insurance for retirees, $3.1 million has been budgeted for 2017 and increases by 3.0% in each of the out years of the Financial Plan. As this is an estimate we recommend that the BMHA monitor retiree health insurance payments and modify the budget and financial plan as necessary. The total actuarial accrued liability for other postemployment benefits is $87.8 million as of June 30, 2015. The annual accrual is estimated at $1.5 million for 2017 and is held flat over the financial plan.

There are no large or unusual fluctuations in any of the remaining individual balances.

Tenant Services
Tenant Services represent 1.3% of annual projected operating expenses over the Financial Plan and are projected at $0.7 million annually, remaining relatively flat through 2020. Tenant Services expense decreased by $71,500 (9.9%) from 2015 to 2017 budget.

Protective Services
Protective Services constitute approximately 2.2% of total annual operating expenses over the Financial Plan and are projected at $1.0 million annually. Total Protective Services is budgeted at a decrease of $37,900 (3.8%) in 2017 as compared to the 2016 modified budget. From 2017 to 2020 total Protective Services expenses are projected flat at $1.0 million. Protective services costs are contractually based; $650,000 have been budgeted for the contract with the Buffalo Police Department and is carried forward throughout the Financial Plan.

MARINE DRIVE APARTMENTS

In February 2011, BMHA took over management of Marine Drive Apartments which is owned by BMHA. The BMHA has budgeted a net surplus for each year within the Financial Plan of $417,800 annually. It is noted that in the event there are losses incurred, such losses would be funded by through current year operations of the Central Office or through Central Office reserves to the extent available.

HUD SECTION 8 VOUCHER PROGRAM

Beginning with the 2015-2018 Financial Plan, BMHA has included the financial impact from the HUD Section 8 Voucher Program. This program generated a loss in 2015 and is projected to generate a deficit in 2016, which is funded temporary through reserves and any deficit is a timing issue only. The BMHA has budgeted a break-even within the Financial Plan. As previously noted, any reported surplus or deficit is temporary in nature as this program essentially self-balances.

CAPITAL AND OTHER GRANTS SUMMARY

The summary of the Capital Fund as provided for within the Financial Plan is as follows. The 2016 budgeted amounts are included for comparison purposes.

	Capital and Other Grants				
	2017-2020 Financial Plan				
	($ in millions)				
	Budget	**Financial Plan**			
	2016	**2017**	**2018**	**2019**	**2020**
	$	**$**	**$**	**$**	**$**
Capital Grants	7.6	7.9	7.9	7.9	7.9
ROSS* Grant	0.3	0.3	0.3	0.3	0.3
Section 8	5.9	6.5	6.5	6.5	6.5
Total Grants Revenue	13.8	14.7	14.7	14.7	14.7
Transfer to Operating	(2.1)	(2.8)	(2.7)	(2.6)	(2.5)
Total Grant Revenue net of Transfer to Operating	11.7	11.9	12.0	12.1	12.2
*Resident Opportunities and Self Sufficiency					

WORKFORCE SUMMARY

Following is a summary of BMHA's workforce over the Financial Plan:

		Buffalo Municipal Housing Authority								
		Workforce Plan over the Four-Year Financial Plan								
		Budget		**Financial Plan**						
Department:		**2016**		**2017**		**2018**		**2019**		**2020**
Executive		14		12		12		12		12
MIS		3		3		3		3		3
Finance & Budget		11		12		12		12		12
Personnel		3		3		3		3		3
Capital Improvement & Development		15		13		13		13		13
Section 8		1		0		0		0		0
Asset Management		135		130		130		130		130
Total		182		173		173		173		173

Based on BFSA's analysis of budgeted salaries of $8.5 million for the 2017 fiscal year it appears that the workforce plan is fairly stated as an average salary for 2017 is $49,196 per employee, which is a 3.3% increase over the average of the 2015 actual average salary per employee of $47,604.

STATUS OF ONGOING PROJECTS

The previous year BMHA Budget and Financial Plan was substantially different from those put together by BMHA in previous years.

BMHA was required to develop a plan to address the substandard management issues highlighted by HUD. In December 2014, BMHA was designated as Substandard Management ("MASS") by HUD based on a Public Housing Assessment System Management score of 11 out of 25 possible points and an overall score of 65 for the fiscal year ending June 30, 2013. As a result of the Substandard MASS score, the local HUD field office requires that the BMHA provide a Substandard Public Housing Authority Action Plan to address these performance deficiencies.

On April 23, 2015, BMHA announced its Substandard Public Housing Authority Action Plan (also referred to as the "Transformation Plan"), which was approved by the BMHA Board of Commissioners on that same day, to address these issues. The 2016-17 Budget and 2017-2020 Financial Plan continues to take into account the actions required under the Transformation Plan:

1. Remove from BMHA the following uninhabitable units: 1) 170 AD Price Courts units, and 2) the 242 Commodore Perry RAD units,
2. Apply for RAD designation for: 1) 233 Shaffer units, and 2) remaining 242 Perry units,
3. Rebuild the cash reserves at BMHA.

In addition, it is noted the Kensington Heights demolition has almost been completed with five of the six towers abated and demolished. The remaining tower is expected to be abated and demolished in the near future. Upon completion of this and the settlement of the United States Environmental Protection Agency's compliance order related to the removal of the asbestos from these towers, the BMHA submitted an application to New York State for the brownfield tax credit program. After a determination has been made as to acceptance to the tax credit program, a request for proposal will be issued to identify a development partner for the completion of a revitalization plan for the site.

CONCLUSION AND RECOMMENDATIONS

As a result of BFSA's review of same it is concluded that the 2017-2020 Financial Plan of the Buffalo Municipal Housing Authority is deemed to be complete and compliant with the provisions of the BFSA Act.

With respect to the remaining provisions of the Financial Plan, it is noted the plan provides for the payment of principal for debt service from current year cash flows, and does not use any reserves. A small surplus is projected annually; the intent is to replenish the reserves. This a significant change from the 2014-2017 Financial Plan which included the use of reserves over a four-year period of $11.4 million.

With respect to revenues and expenses as included within the Financial Plan, the following observations are made:

- Revenues as included in the Financial Plan appear to be reasonable. The Financial Plan includes revenues to be received for both Marine Drive and the HUD Section 8 Voucher Program. It needs to be noted that during the time frame of this Financial Plan that a change in administration will occur in Washington D.C. and that change could impact funding from the Federal government

- Salaries and wages are not projected to increase over the Financial Plan as all labor contracts have expired. Any increases to labor costs associated with new collective bargaining agreements would place additional pressure on the Financial Plan, and would likely require a modification to the plan. Also, due to the current low manpower level this could put pressure on BMHA to accomplish what needs to be done.

As has been noted previously by BFSA, we recommend that year-end projections be made at least quarterly and the budget and Financial Plan be modified as necessary.

CHAPTER TEXT:

LAWS OF NEW YORK, 2003

CHAPTER 122

AN ACT to amend the public authorities law and the tax law, in relation to creating the Buffalo fiscal stability authority

Became a law July 3, 2003, with the approval of the Governor. Passed on message of necessity pursuant to Article III, section 14 of the Constitution by a majority vote, three-fifths being present.

The People of the State of New York, represented in Senate and Assembly, do enact as follows:

Section 1. Legislative findings. The legislature hereby finds and declares that a condition of fiscal difficulty has existed for several years in the city of Buffalo, as a result of a weakened economy, population declines, and job losses. In recent months, the city's fiscal condition has been further weakened by the impact of the national economic recession, which has had a greater negative impact in Buffalo than in many other areas of the state. These factors have led to a structural imbalance between revenues and expenditures which, when combined with the city's limited ability to increase taxes on its residents, has resulted in a downgrade of Buffalo's bonds by independent bond rating services.

It is hereby found and declared that the city is in a state of fiscal crisis, and that the welfare of the inhabitants of the city is seriously threatened. The city budget must be balanced and economic recovery enhanced. Actions should be undertaken which preserve essential services to city residents, while also ensuring that taxes remain affordable. Actions contrary to these two essential goals jeopardize the city's long-term fiscal health and impede economic growth for the city, the region, and the state.

It is, therefore, further found and declared that a combination of enhanced budgetary discipline and short-term budgetary relief is necessary to assist the city in returning to fiscal and economic stability, while ensuring adequate funding for the provision of essential services and for the maintenance, expansion, and rebuilding of the infrastructure of the city. If the city financial plan incorporates the annual targets required by this act for recurring cost-saving measures, the Buffalo fiscal stability authority shall make savings available to the city through a restructuring of a portion of the city's outstanding debt, and/or through limited borrowing for operating costs, in either case, secured by an intercept of sales tax net collections as well as state aid.

It is hereby further found and declared that a control and advisory finance authority should be established to oversee the city's budget, financial and capital plans; to issue bonds, notes or other obligations to achieve budgetary savings through debt restructuring; to finance short-term cash flow or capital needs; and, if necessary, to develop financial plans on behalf of the city if the city is unwilling or unable to take the required steps toward fiscal stability.

EXPLANATION--Matter in *italics* is new; matter in brackets [-] is old law to be omitted.

Based upon the fiscal crisis in the city of Buffalo, the legislature through this act creates a Buffalo fiscal stability authority with certain control, advisory and borrowing powers, and imposes on the city of Buffalo certain requirements as to budgetary operations and fiscal management, including minimum annual requirements to produce recurring budget savings in increasing amounts over the next four years. The agreements for financial and budgetary discipline between the authority and the city shall be for such period as is necessary under the standards set forth in this act to restore the city of Buffalo to fiscal integrity, with a control or advisory role for the authority continuing until June 30, 2037.

§ 2. Article 10-D of the public authorities law is amended by adding a new title 2 to read as follows:

TITLE 2

BUFFALO FISCAL STABILITY AUTHORITY

§ 3850. Short title. This title shall be known and may be cited as the "Buffalo fiscal stability authority act."

§ 3850-a. Legislative declaration of need for state intervention. The legislature hereby finds and declares that the city of Buffalo is facing a severe fiscal crisis, and that the crisis cannot be resolved absent assistance from the state. The legislature finds that the city has repeatedly relied on annual extraordinary increases in state aid to balance its budget, and that the state cannot continue to take such extraordinary actions on the city's behalf. The legislature further finds and declares that maintenance of a balanced budget by the city of Buffalo is a matter of overriding state concern, requiring the legislature to intervene to provide a means whereby: the long-term fiscal stability of the city will be assured, the confidence of investors in

the city's bonds and notes is preserved, and the economy of both the region and the state as a whole is protected.

§ 3851. Definitions. For the purposes of this title, unless the context otherwise requires: 1. "Advisory period" means that period no earlier than July first, two thousand six, after which the authority 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 authority assistance, as provided for under section thirty-eight hundred fifty-seven of this title, when reported in accordance with generally accepted accounting principles and (b) the 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 a 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 financial plan then in existence. The joint certification made by the comptroller and the state comptroller shall be based on their separate written determinations which may take into account a report and opinion of an independent expert in the marketing of securities selected by the authority as well as other information available to the comptrollers. Once begun, an advisory period shall continue through June thirtieth, two thousand thirty-seven unless a control period is imposed.

2. "Authority" or "Buffalo fiscal stability authority" or "BFSA" means the public benefit corporation created by this title.

3. "BFSA assistance" means: (a) the amount of debt service savings in a given city fiscal year generated from the proceeds of bonds, notes or other obligations made available to or for the benefit of the city or any covered organization as determined by the authority; or (b) the proceeds of any deficit financing authorized by the authority, or some combination thereof pursuant to the provisions of section thirty-eight hundred fifty-seven of this title. Such assistance shall be made available only upon a declaration of need by the city pursuant to section thirty-eight hundred sixty-one of this title and the approval of the BFSA board.

4. "Bonds, notes or other obligations" means bonds, notes and other evidences of indebtedness, issued or incurred by the authority.

5. "Chief fiscal officer" means the chief fiscal officer of the city as defined in section 2.00 of the local finance law.

6. "City" means the city of Buffalo.

7. "City charter" means the city government law of the city of Buffalo, as amended.

8. "City tax revenues" means the portion of the county's "net collections", as defined in section twelve hundred sixty-two of the tax law, payable to the city under the agreement among the county, the city and the cities of Lackawanna and Tonawanda entered into pursuant to the authority of subdivision (c) of section twelve hundred sixty-two of the tax law. In the event that the city imposes sales and compensating use taxes pursuant to the authority of section twelve hundred ten of the tax law, "city tax revenues" shall also include net collections from such city taxes.

9. "Comptroller" means the comptroller of the city.

10. "Control period" means that period of time from the effective date of this title, continuing until the authority determines that conditions have been met as provided in subdivision one of this section and the city qualifies for the onset of an advisory period. A control period may be reimposed as determined by the authority in accordance with section thirty-eight hundred fifty-eight of this title.

11. "Council" means the city council of the city of Buffalo.

12. "County" means the county of Erie.

13. "Covered organization" means the city school district, the joint schools construction board of the city, as described in chapter six hundred five of the laws of two thousand, as amended, and the Buffalo municipal housing authority and any governmental agency, public authority or public benefit corporation which receives or may receive moneys directly, indirectly or contingently from the city, but excluding the authority and (a) any other governmental agency, public authority or public benefit corporation specifically exempted from the provisions of this title by order of the authority upon application of such agency, public authority, or corporation to the authority or on the authority's own motion upon a finding by the authority that such exemption does not materially affect the ability of the city to adopt and maintain a budget pursuant to the provisions of this title, or (b) any state public authority defined in section two hundred one of the civil service law, unless specifically named above; provided, however, that the authority may terminate any exemption granted by order of the authority pursuant to this subdivision upon a determination that the circumstances upon which such exemption was granted are no longer applicable.

14. "Director of the budget" means the director of the budget of the state.

15. "Financeable costs" or "costs" means costs to finance (a) amounts necessary to accomplish a refunding, repayment or restructuring of a portion of the city's outstanding indebtedness or that of any covered organization, (b) cash flow needs of the city or any covered organization, (c) any object or purpose of the city or any covered organization, for which a period of probable usefulness is prescribed in section 11.00 of the local finance law, including the costs of any preliminary studies, surveys, maps, plans, estimates and hearings, (d) amounts necessary to finance a portion of the operating costs of the city or any covered organization as provided in section thirty-eight hundred fifty-seven of this title, to the extent approved by the authority, or (e) incidental costs, including, but not limited to, legal fees, printing or engraving, publication of notices, taking of title, apportionment of costs, and capitalized interest, insurance premiums, costs related to items authorized in subdivisions seven through nine of section thirty-eight hundred fifty-four of this title or any underwriting or other costs incurred in connection with the financing thereof; provided however that, to the maximum extent practicable, all financeable costs shall not adversely affect the requirements of subdivision two of section thirty-eight hundred sixty-nine of this title.

16. "Financial plan" means the financial plan of the city and the covered organizations to be developed pursuant to section thirty-eight hundred fifty-seven of this title, as from time to time amended.

17. "Major operating funds" means the city general fund, the board of education general fund, the city enterprise funds, the board of education special project funds, together with any other funds of the city or a covered organization from time to time designated by the authority.

18. "Mayor" means the mayor of the city.

19."Presiding officer" means the presiding officer of the council elected pursuant to the rules of the council.

20. "Projected gap" means the excess, if any, of annual aggregate projected expenditures over annual aggregate projected revenues for the major operating funds in each year of a financial plan as determined by the city and certified by the authority. For purposes of determining the projected gap in each fiscal year, annual aggregate projected revenues shall not include the amount of BFSA assistance expected to be available for such fiscal year.

21. "Revenues" means revenues of the authority consisting of city tax revenues, state aid revenues, and all other aid, rents, fees, charges, payments and other income and receipts paid or payable to the authority or a trustee for the account of the authority to the extent such amounts are pledged to bondholders.

22. "State" means the state of New York.

23. "State aid" means: all general purpose local government aid; emergency financial assistance to certain cities; emergency financial assistance to eligible municipalities; supplemental municipal aid; and any successor type of aid and any new aid appropriated by the state as local government assistance for the benefit of the city.

24. "State aid revenues" means state aid paid by the state comptroller to the authority pursuant to this title.

25. "State comptroller" means the comptroller of the state.

§ 3852. Buffalo fiscal stability authority. 1. There is hereby created the Buffalo fiscal stability authority. The authority shall be a corporate governmental agency and instrumentality of the state constituting a public benefit corporation.

2. The authority shall conduct meetings as often as deemed necessary to accomplish its purposes, but not less than quarterly during a control period, and annually during an advisory period.

3. The authority shall continue until its control, advisory or other responsibilities, and its liabilities have been met or otherwise discharged, which in no event shall be later than June thirtieth, two thousand thirty-seven. Upon the termination of the authority, all of its property and assets shall pass to and be vested in the city.

§ 3853. Administration of the authority. 1. The authority shall be administered by nine directors, seven of which shall be appointed by the governor. Of the seven directors, one such director shall be a resident of the city of Buffalo; one such director shall be appointed following the recommendation of the state comptroller; and one such director shall be appointed on the joint recommendation of the temporary president of the senate and the speaker of the assembly. The mayor and the county executive shall serve as ex officio members. Every director, who is otherwise an elected official of the city or county, shall be entitled to designate a single representative to attend, in his or her place, meetings of the authority and to vote or otherwise act in his or her behalf. Such designees shall be residents of the city of Buffalo. Written notice of such designation shall be furnished prior to any participation by the single designee. Such single designee shall serve at the pleasure of the representative, and shall not be authorized to delegate any of his or her duties or functions to another person. Each director appointed by the governor shall be appointed for a term of four years, provided however, that four of the directors first appointed by the governor, including the director appointed following the recommendation of the state comptroller shall serve for a term ending June thirtieth, two thousand seven, and the remaining three directors first

appointed by the governor including the director appointed on the joint recommendation of the temporary president of the senate and the speaker of the assembly and shall serve for a term ending June thirtieth, two thousand nine. Each director shall hold office until his or her successor has been appointed and qualified. Thereafter, each director shall serve a term of four years, except that any director appointed to fill a vacancy shall serve only until the expiration of his or her predecessor's term.

2. The governor shall designate a chairperson and a 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 may prescribe. 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 may prescribe.

3. The directors of the authority shall serve without salary, but each director shall be reimbursed for actual and necessary expenses incurred in the performance of such director's official duties as a director of the authority.

4. Notwithstanding any inconsistent provision of any general, special or local law, ordinance, resolution or charter, no officer, member or employee of the state, any city, county, town or village, any governmental entity operating any public school or college, any school district or any other public agency or instrumentality which exercises governmental powers under the laws of the state, shall forfeit his or her office or employment by reason of his or her acceptance of appointment as a director, officer or employee of the authority, nor shall service as such director, officer or employee of the authority be deemed incompatible or in conflict with such office or employment.

5. Five directors shall constitute a quorum for the transaction of any business or the exercise of any power of the authority. No action shall be taken by the authority except pursuant to a favorable vote of at least five directors participating in a meeting at which such action is taken.

6. The authority shall appoint a treasurer and may appoint officers and agents as it may require and prescribe their duties.

7. At least annually, commencing no more than one year after the date on which authority bonds, notes or other obligations are first issued, the authority shall report to the council, comptroller, the director of the budget, and the state comptroller on the amount of financing and the cost savings for the city over the past year.

8. The authority shall cease to exist on June thirtieth, two thousand thirty-seven.

§ 3854. General powers of the authority. Except as otherwise limited by this title, the authority shall have the following powers in addition to those specially conferred elsewhere in this title, subject only to agreements with bondholders:

1. to sue and be sued;

2. to have a seal and alter the same at pleasure;

3. to make and alter by-laws for its organization and management and subject to agreements with its bondholders, to make and alter rules and regulations governing the exercise of its powers and fulfillment of its purposes under this title;

4. to make and execute contracts and all other instruments or agreements necessary or convenient to carry out any powers and functions expressly given in this title;

5. to commence any action to protect or enforce any right conferred upon it by any law, contract or other agreement;

6. to borrow money and issue bonds, notes or other obligations, or to refund the same, and to provide for the rights of the holders of its bonds, notes or other obligations;

7. as security for the payment of the principal of and interest on any bonds, notes or other obligations issued by it pursuant to this title and any agreements made in connection therewith and for its obligations under bond facilities, to pledge all or any part of its revenues or assets;

8. to procure insurance, letters of credit or other credit enhancement with respect to its bonds, notes or other obligations, or facilities for the payment of tenders of such bonds, notes or other obligations or facilities for the payment upon maturity of short-term notes not renewed;

9. to enter into interest rate exchange or similar arrangements with any person under such terms and conditions as the authority may determine, not inconsistent with the general laws of this state and other provisions of this title, including, without limitation, provisions as to default or early termination and indemnification by the authority or any other party thereto for loss of benefits as a result thereof; provided, however, that such exchanges or similar arrangements shall be limited to twenty-five percent of the amount authorized in subdivision one of section thirty-eight hundred sixty-two of this title to pay the financeable costs described in paragraph (a), (c), (d) or (e) of subdivision fifteen of section thirty-eight hundred fifty-one of this title;

10. to accept gifts, grants, loans or contributions of funds or financial or other aid in any form from the city, county, state or federal government or any agency or instrumentality thereof, or from any other source and to expend the proceeds for any of its corporate purposes in accordance with the provisions of this title;

11. subject to the provisions of any contract with bondholders, to invest any funds held in reserves or sinking funds, or any funds not required for immediate use or disbursement, at the discretion of the authority, in (a) obligations of the state or the United States government, (b) obligations the principal and interest of which are guaranteed by the state or the United States government, (c) certificates of deposit, whether negotiable or non-negotiable, and banker's acceptances of any of the fifty largest banks in the United States which bank, at the time of investment, has an outstanding unsecured, uninsured and unguaranteed debt issue ranked by two nationally recognized independent rating agencies at a rating category that is no lower than the then current rating of the authority's bonds, notes or other obligations, (d) commercial paper of any bank or corporation created under the laws of either the United States or any state of the United States which commercial paper, at the time of the investment, has received the highest rating of two nationally recognized independent rating agencies, (e) bonds, debentures, or other evidences of indebtedness, issued or guaranteed at the time of the investment by the federal national mortgage association, federal home loan mortgage corporation, student loan marketing association, federal farm credit system, or any other United States government sponsored agency, provided that at the time of the investment such agency receives, or its obligations receive, any of the three highest rating categories of two nationally recognized independent rating agencies, (f) any bonds or other obligations of any state or the United States of America or of any political subdivision thereof or any agency, instru-

mentality or local governmental unit of any such state or political subdivision which bonds or other obligations, at the time of the investment have received any of the three highest ratings of two nationally recognized independent rating agencies, (g) any repurchase agreement with any bank or trust company organized under the laws of any state of the United States of America or any national banking association or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is secured by any one or more of the securities described in paragraph (a), (b) or (e) of this subdivision, which securities shall at all times have a market value of not less than the full amount of the repurchase agreement and be delivered to another bank or trust company organized under the laws of the state or any national banking association domiciled in the state, as custodian, and (h) reverse repurchase agreements with any bank or trust company organized under the laws of any state of the United States of America or any national banking association or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is secured by any one or more of the securities described in paragraph (a), (b) or (e) of this subdivision which securities shall at all times have a market value of not less than the full amount of the repurchase agreement and be delivered to another bank or trust company organized under the laws of the state or any national banking association domiciled in the state, as custodian.

12. to appoint such officers and employees as it may require for the performance of its duties and to fix and determine their qualifications, duties, and compensation, and to retain or employ counsel, auditors and private financial consultants and other services on a contract basis or otherwise for rendering professional, business or technical services and advice; and, in taking such actions, the authority shall consider the financial impact on the city; and

13. to do any and all things necessary or convenient to carry out its purposes and exercise the powers expressly given and granted in this title; provided, however, such authority shall under no circumstances acquire, hold or transfer title to, lease, own beneficially or otherwise, manage, operate or otherwise exercise control over any real property, any improvement to real property or any interest therein other than a lease or sublease of office space deemed necessary or desirable by the authority.

§ 3855. Assistance to the authority; employees of the authority. 1. With the consent of any public corporation, the authority may use agents, employees and facilities thereof, paying to such public corporation its agreed proportion of the compensation or costs.

2. Officers and employees of state or city agencies may be transferred to the authority without examination and without loss of any civil service or retirement status or rights. Any officer or employee of the authority who heretofore acquired or shall hereafter acquire such position status by transfer and who at the time of such transfer was a member of the New York state and local employees' retirement system shall continue to be a member of such system as long as he or she continues in such service, and shall continue to have all the rights, privileges and obligations of membership in such system.

§ 3856. City fiscal year two thousand three--two thousand four budget modification and four-year financial plan. 1. Not later than September first, two thousand three, the city shall submit to the authority a financial plan which may reflect a declaration of need as provided for

in section thirty-eight hundred sixty-one. The plan shall cover the city's two thousand three--two thousand four fiscal year and the three subsequent fiscal years.

2. Not later than fifteen days after such submission, the authority shall approve or disapprove the financial plan.

3. In the event the authority shall disapprove such financial plan based on disapproval of certain actions or assumptions, the authority shall promptly thereafter notify the city of its reasons. Within fifteen days from the receipt of such notification the city shall modify the financial plan, and unless such financial plan modification is approved by the authority, the authority shall impose a financial plan of its own formulation as soon as practicable, as provided for in section thirty-eight hundred fifty-eight of this title.

§ 3857. City financial plans. 1. Commencing with the city's two thousand four--two thousand five fiscal year, the mayor shall prepare and submit to the authority a four-year financial plan, and the mayor's proposed city budget, not later than the date required for submission of such budget to the council pursuant to the city charter. Such financial plan shall, in addition to the requirements for financial plans set forth in subdivisions two and three of this section, contain actions sufficient to ensure with respect to the major operating funds for each fiscal year of the plan that annual aggregate operating expenses for such fiscal year shall not exceed annual aggregate operating revenues for such fiscal year. For purposes of determining operating revenues in the fiscal years ending June thirtieth, two thousand four through two thousand seven, such plan may assume receipt by the city of BFSA assistance in the following collective amounts for each respective fiscal year:

Amount	Fiscal Year Ending
2004 amount	2004
2005 amount	2005
2006 amount	2006
2007 amount	2007

As used in this subdivision:

"2004 amount" means that amount expected to be provided by the authority to ensure balanced major operating fund operations upon its determination that the city has taken recurring actions to close between thirty-five per centum and forty per centum of the projected gap.

"2005 amount" means that amount expected to be provided by the authority to ensure balanced major operating fund operations upon its determination that the city has taken recurring actions to close between forty-five per centum and fifty per centum of the projected gap.

"2006 amount" means that amount expected to be provided by the authority to ensure balanced major operating fund operations upon its determination that the city has taken recurring actions to close between sixty per centum and sixty-five per centum of the projected gap.

"2007 amount" means that amount expected to be provided by the authority to ensure balanced major operating fund operations upon its determination that the city has taken recurring actions to close between eighty per centum and eighty-five per centum of the projected gap.

2. Each financial plan and financial plan modification shall conform to the requirements of paragraph (a) of this subdivision and shall provide that the major operating funds of the city will be balanced in accordance with generally accepted accounting principles. The financial plan shall be developed and approved, and may from time to time be modified, in accordance with the following procedures:

(a) The mayor shall submit to the authority a certificate stating that the budget submitted to the authority is consistent with the financial plan submitted therewith and that operation within the budget is feasible.

(a-1) Prior to the approval or disapproval of the financial plan of the city by the authority, the authority shall request community, educational or other entity or entities to seek public input and comment relating to the city's and/or any covered organization's financial plan. Such community, educational or other entity or entities shall report to the authority on such public input and comment ten days after the city has submitted the financial plan to the authority.

(b) Not more than twenty days after submission of a financial plan or more than fifteen days after submission of a financial plan modification, the authority shall determine whether the financial plan or financial plan modification is complete and complies with the provisions of this section and section thirty-eight hundred fifty-six of this title and the other requirements of this title, and shall submit its recommendations with respect to the financial plan or financial plan modification in accordance with the provisions of this subdivision.

(c) Upon the approval by the city of a budget in accordance with the provisions of the city charter, the mayor shall submit such approved budget and financial plan to the authority accompanied by expenditure, revenue and cash flow projections on a quarterly basis and certify to the authority that such budget is consistent with the financial plan to be submitted to the authority.

(d) If the authority determines that the financial plan or financial plan modification provided pursuant to paragraph (c) or (f) of this subdivision or section thirty-eight hundred fifty-six of this title is complete and complies with the standards set forth in this subdivision, the authority shall make a certification to the city setting forth revenue estimates agreed to by the authority in accordance with such determination.

(e) The authority shall, in the event it disagrees with elements of the financial plan provided pursuant to paragraph (c) or (f) of this subdivision, or section thirty-eight hundred fifty-six of this title, provide notice thereof to the city, with copies to the director of the budget, the state comptroller, the chair of the assembly ways and means committee and the chair of the senate finance committee, if, in the judgment of the authority, such plan: (i) is incomplete; (ii) fails to contain projections of revenues and expenditures that are based on reasonable and appropriate assumptions and methods of estimations; (iii) fails to provide that operations of the city and the covered organizations will be conducted within the cash resources available; or (iv) fails to comply with the provisions of this title or other requirements of law.

(f) After the initial adoption of an approved financial plan, the revenue estimates certified by the authority and the financial plan shall be regularly reexamined by the authority in consultation with the city and the covered organizations and the mayor shall provide a modified financial plan in such detail and within such time periods as the authority may require. In the event of reductions in such revenue estimates, or in the event the city or a covered organization shall expend funds at a rate that would exceed the aggregate expenditure limitation for the city or covered organization prior to the expiration of the fiscal year, the mayor shall submit a financial plan modification to effect such adjustments in revenue estimates and reductions in total

expenditures as may be necessary to conform to such revised revenue estimates or aggregate expenditure limitations.

(g) If, within a time period specified by the authority, the city fails to make such modifications after reductions in revenue estimates, or to provide a modified plan in detail and within such time period required by the authority, the authority shall adopt a resolution so finding and shall, as soon as practicable thereafter, formulate and adopt a financial plan to be effective until the authority approves a financial plan submitted by the city. All budgets and operations of the city or a covered organization shall be in conformance and compliance with the financial plan then in effect.

(h) The city shall amend its budget or shall submit a financial plan modification for the approval of the authority such that the city's budget and the approved financial plan shall be consistent. In no event shall the city operate under a budget that is inconsistent with an approved financial plan.

3. The financial plan shall be in such form and shall contain such information for each year during which the financial plan is in effect as the authority may specify, and shall include the city and all the covered organizations, and shall, in such detail as the authority from time to time may prescribe, include statements of all estimated revenues and of all expenditures and cash flow projections of the city and each covered organization.

4. The financial plan shall include any information which the authority may request to satisfy itself that (a) projected employment levels, collective bargaining agreements and other actions relating to employee costs, capital construction and such other matters as the authority may specify are consistent with the provisions made for such obligations in the financial plan, (b) the city and the covered organizations are taking whatever action is necessary with respect to programs mandated by state and federal law to ensure that expenditures for such programs are limited to and covered by the expenditures stated in the financial plan, (c) adequate reserves are provided to maintain essential programs in the event revenues have been overestimated or expenditures underestimated for any period, and (d) the city has adequate cash resources to meet its obligations. In addition, except to the extent such reporting requirements may be modified pursuant to agreement between the authority and the city, for each fiscal year occurring during a control period, or while bonds, notes or other obligations issued pursuant to this title are outstanding, the mayor shall prepare a quarterly report of summarized budget data depicting overall trends, by major category within funds, of actual revenues and budget expenditures for the entire budget rather than individual line items, as well as updated quarterly cash flow projections of receipts and disbursements. Such reports shall compare revenue estimates and appropriations as set forth in such budget and in the quarterly revenue and expenditure projections submitted therewith, with the actual revenues and expenditures made to date. Such reports shall also compare actual receipts and disbursements with the estimates contained in the cash flow projections, together with variances and their explanation. All quarterly reports shall be accompanied by recommendations from the mayor to the council setting forth any remedial action necessary to resolve any unfavorable budget variance including the overestimation of revenues and the underestimation of appropriations. These reports shall be completed within thirty days after the end of each quarter and shall be submitted to the council, the authority, the director of the budget and the state comptroller. For each

fiscal year occurring during a control or advisory period or while bonds, notes or other obligations issued pursuant to this title are outstanding, the mayor shall submit a proposed budget or revision thereto to the authority concurrent with submission to the council, and shall submit the adopted budget to the authority immediately upon its adoption.

5. For each financial plan and financial plan modification to be prepared and submitted by the mayor to the authority pursuant to the provisions of this section, the covered organizations shall submit to the city such information with respect to their projected expenditures, revenues and cash flows for each of the years covered by such financial plan or modification as the mayor shall determine.

§ 3858. Control period. 1. A control period shall begin as of the effective date of this title and may be reimposed during an advisory period if the authority determines at any time that a fiscal crisis is imminent or that any of the following events has occurred or that there is a substantial likelihood and imminence of such occurrence: (a) the city shall have failed to adopt a balanced budget, financial plan or budget modification as required by sections thirty-eight hundred fifty-six and thirty-eight hundred fifty-seven of this title, (b) the city shall have failed to pay the principal of or interest on any of its bonds or notes when due, (c) the city shall have incurred an operating deficit of one percent or more in the aggregate results of operations of any major fund of the city or a covered organization during its fiscal year assuming all revenues and expenditures are reported in accordance with generally accepted accounting principles, subject to the provisions of this title, (d) the chief fiscal officer's certification at any time, at the request of the authority or on the chief fiscal officer's initiative, which certification shall be made from time to time as promptly as circumstances warrant and reported to the authority, that on the basis of facts existing at such time such officer could not make the certification described in subdivision one of section thirty-eight hundred fifty-one of this title, or (e) the city shall have violated any provision of this title. A control period shall terminate when the authority has determined that the city qualifies for the onset of an advisory period as provided under subdivision one of section thirty-eight hundred fifty-one of this title. After onset of an advisory period, the authority shall annually consider paragraphs (a) through (e) of this subdivision and determine whether, in its judgment, any of the events described in such paragraphs have occurred and the authority shall publish each such determination. Any certification made by the chief fiscal officer hereunder shall be based on such officer's written determination which shall take into account a report and opinion of an independent expert in the marketing of municipal securities selected by the authority, and the opinion of such expert and any other information taken into account shall be made public when delivered to the authority. Notwithstanding any part of the foregoing to the contrary, in no event shall any control period continue beyond June thirtieth, two thousand thirty-seven.

2. In carrying out the purposes of this title during any control period, the authority:

(a) shall approve or disapprove the financial plan and the financial plan modifications of the city, as provided in sections thirty-eight hundred fifty-six and thirty-eight hundred fifty-seven of this title, and shall formulate and adopt its own modifications to the financial

plan, as necessary; such modifications shall become effective upon their adoption by the authority;

(b) may set a maximum level of spending for any proposed budget of any covered organization;

(c) may impose a wage and/or hiring freeze: (i) During a control period, upon a finding by the authority that a wage and/or hiring freeze is essential to the adoption or maintenance of a city budget or a financial plan that is in compliance with this title, the authority shall be empowered to order that all increases in salary or wages of employees of the city and employees of covered organizations which will take effect after the date of the order pursuant to collective bargaining agreements, other analogous contracts or interest arbitration awards, now in existence or hereafter entered into, requiring such salary or wage increases as of any date thereafter are suspended. Such order may also provide that all increased payments for holiday and vacation differentials, shift differentials, salary adjustments according to plan and step-ups or increments for employees of the city and employees of covered organizations which will take effect after the date of the order pursuant to collective bargaining agreements, other analogous contracts or interest arbitration awards requiring such increased payments as of any date thereafter are, in the same manner, suspended. For the purposes of computing the pension base of retirement allowances, any suspended salary or wage increases and any other suspended payments shall not be considered as part of compensation or final compensation or of annual salary earned or earnable.

(ii) Notwithstanding the provisions of subparagraph (i) of this paragraph, this subdivision shall not be applicable to employees of the city or employees of a covered organization subject to a collective bargaining agreement or an employee of the city or a covered organization not subject to a collective bargaining agreement where the collective bargaining representative or such unrepresented employee has agreed to a deferment of salary or wage increase, by an instrument in writing which has been certified by the authority as being an acceptable and appropriate contribution toward alleviating the fiscal crisis of the city. Any such agreement to a deferral of salary or wage increase may provide that for the purposes of computing the pension base of retirement allowances, any deferred salary or wage increase may be considered as part of compensation or final compensation or of annual salary earned or earnable;

(iii) Notwithstanding the provisions of subparagraphs (i) and (ii) of this paragraph, no retroactive pay adjustments of any kind shall accrue or be deemed to accrue during the period of wage freeze, and no such additional amounts shall be paid at the time a wage freeze is lifted, or at any time thereafter.

(d) shall periodically evaluate the suspension of salary or wage increases or suspensions of other increased payments or benefits, and may, if it finds that the fiscal crisis, in the sole judgment of the authority has abated, terminate such suspensions;

(e) shall review and approve or disapprove any collective bargaining agreement to be entered into by the city or any covered organization, or purporting to bind, the city or any covered organization. Prior to entering into any collective bargaining agreement, the city or any covered organization shall submit a copy of such collective bargaining agreement to the authority, accompanied by an analysis of the projected costs of such agreement and a certification that execution of the agreement will be in accordance with the financial plan. Such submission

shall be in such form and include such additional information as the authority may prescribe. The authority shall promptly review the terms of such collective bargaining agreement and the supporting information in order to determine compliance with the financial plan, and shall disapprove any collective bargaining agreement which, in its judgment, would be inconsistent with the financial plan. No collective bargaining agreement binding, or purporting to bind, the city or any covered organization after the effective date of this title shall be valid and binding upon the city or any covered organization unless first approved by resolution of the authority.

(f) shall act jointly with the city in selecting members of any interest arbitration panel. Notwithstanding any other evidence presented by the city, the covered organization or any recognized employee organization, the arbitration panel must, prior to issuing any final decision, provide the authority with the opportunity to present evidence regarding the fiscal condition of the city;

(g) shall take any action necessary in order to implement the financial plan should the city or any covered organization have failed to comply with any material action necessary to fulfill the plan, provided, however, the authority shall provide seven (7) days notice of its determination that the city or any covered organization has not complied prior to taking any such action.

(h) may review and approve or disapprove contracts or other obligations binding or purporting to bind the city or any covered organization;

(i) shall, with respect to any proposed borrowing by or on behalf of the city or any covered organization on or after July first, two thousand three, review the terms of and comment, within thirty days after notification by the city or covered organization of a proposed borrowing, on the prudence of each proposed issuance of bonds or notes to be issued by the city or covered organization and no such borrowing shall be made unless first reviewed, commented upon and approved by the authority. The authority shall comment within thirty days after notification by the city or covered organization of a proposed borrowing to the mayor, the comptroller, the council, the director of the budget and the state comptroller and indicate approval or disapproval of the proposed borrowing. Notwithstanding the foregoing, neither the city nor any covered organization shall be prohibited from issuing bonds or notes to pay outstanding bonds or notes; and, provided further, the first issuance of debt pursuant to chapter six hundred five of the laws of two thousand, as amended, shall be excluded from this requirement;

(j) may review the operation, management, efficiency and productivity of the city and any covered organizations as the authority may determine, and make reports thereon; examine the potential to enhance the revenue of the city or any covered organization; audit compliance with the financial plan in such areas as the authority may determine; recommend to the city and the covered organizations such measures relating to their operations, management, efficiency and productivity as the authority deems appropriate to reduce costs, enhance revenue, and improve services so as to advance the purposes of this title;

(k) may require the city to undertake certain actions to advance serious and in-depth exploration of a merger of services with the county, including identification and analysis of options; development of a detailed fiscal and programmatic plan; identification of city, county, and state impediments; and fostering of informed public debate;

(l) may review and approve or disapprove the terms of any proposed settlement of claims against the city or any covered organization in excess of fifty thousand dollars;

(m) may obtain from the city, the covered organizations, comptroller, and the state comptroller, as appropriate, all information required pursuant to this section, and such other financial statements and projections, budgetary data and information, and management reports and materials as the authority deems necessary or desirable to accomplish the purposes of this title; and inspect, copy and audit such books and records of the city and the covered organizations as the authority deems necessary or desirable to accomplish the purposes of this title;

(n) may perform such audits and reviews of the city and any agency thereof and any covered organizations as it deems necessary; and

(o) may issue, from time to time and to the extent it deems necessary or desirable in order to accomplish the purposes of this title, to the appropriate official of the city and each covered organization, such orders necessary to accomplish the purposes of this title, including, but not limited to, timely and satisfactory implementation of an approved financial plan. Any order so issued shall be binding upon the official to whom it was issued and failure to comply with such order shall subject the official to the penalties described in subdivision three of this section.

3. (a) During any control period (i) no officer or employee of the city or of any of the covered organizations shall make or authorize an obligation or other liability in excess of the amount available therefor under the financial plan as then in effect; (ii) no officer or employee of the city or of any of the covered organizations shall involve the city or any of the covered organizations in any contract or other obligation or liability for the payment of money for any purpose required to be approved by the authority unless such contract has been so approved and unless such contract or obligation or liability is in compliance with the approved financial plan as then in effect.

(b) No officer or employee of the city or any of the covered organizations shall take any action in violation of any valid order of the authority or shall fail or refuse to take any action required by any such order or shall prepare, present or certify any information (including any projections or estimates) or report to the authority or any of its agents that is false or misleading, or, upon learning that any such information is false or misleading, shall fail promptly to advise the authority or its agents thereof.

(c) In addition to any penalty or liability under any other law, any officer or employee of the city or any of the covered organizations who shall violate paragraph (a) or (b) of this subdivision shall be subject to appropriate administrative discipline, including, when circumstances warrant, suspension from duty without pay or removal from office by order of either the governor or the mayor; and any officer or employees of the city or any of the covered organizations who shall knowingly and willfully violate paragraph (a) or (b) of this subdivision shall, upon conviction, be guilty of a misdemeanor.

(d) In the case of a violation of paragraph (a) or (b) of this subdivision by an officer or employee of the city or of a covered organization, the mayor or the chief executive officer of such covered organization shall immediately report to the authority all pertinent facts together with a statement of the action taken thereon.

§ 3859. Advisory period. 1. During any advisory period the authority shall:

(a) obtain from the city, the covered organizations and the state comptroller, all information, financial statements and projections, budgetary data and information, and management reports and materials as the authority deems necessary or desirable to accomplish the purposes of this title; and inspect, copy and audit such books and records of the city and the covered organizations as the authority deems necessary or desirable to accomplish the purposes of this title;

(b) review the operation, management, efficiency and productivity of city operations and of any covered organization's operations as the authority may determine, and make reports and recommendations thereon; examine the potential to enhance the revenue of the city or any covered organization; audit compliance with the financial plan in such areas as the authority may determine; recommend to the city and the covered organizations such measures relating to their operations, management, efficiency and productivity as the authority deems appropriate to reduce costs, enhance revenue and improve services so as to advance the purposes of this title;

(c) comment on the provisions of the budget, the financial plan and the financial plan modifications of the city as the authority deems necessary or appropriate;

(d) review and comment on the terms of any proposed borrowing, including the prudence of each proposed issuance of bonds or notes to be issued by the city; and

(e) assess the impact of any collective bargaining agreement to be entered into by the city and such contracts, that, in the judgment of the authority, may have a significant impact on the city's long-term fiscal condition.

2. During any advisory period, the city shall promptly provide all information requested by the authority, review the comments, assessments, reports and recommendations of the authority and publicly respond thereto, addressing such matters as have been raised by the authority.

§ 3860. Additional provisions. 1. Notwithstanding any provision to the contrary in title six-A of article two of the local finance law, neither the city nor any covered organization shall file any petition authorized by such title six-A without the approval of the authority and the state comptroller. No such petition shall be filed as long as any bonds, notes or other obligations issued by the authority remain outstanding. Failure of the authority or the state comptroller to notify the city or a covered organization within thirty days (or such additional time, not exceeding thirty days, as the authority or state comptroller shall have notified the city or covered organization that it requires to complete its review) after submission to it of a petition shall be deemed to constitute authority or state comptroller approval thereof.

2. Nothing contained in this title shall limit the right of the city or any covered organization to comply with the provisions of any existing contract within or for the benefit of the holders of any bonds or notes of the city or such covered organization.

3. Nothing contained in this title shall be construed to limit the power of the city or a covered organization to determine, from time to time, within available funds for the city or for such covered organization, the purposes for which expenditures are to be made by the city or such covered organization and the amounts of such expenditures, consistent with the aggregate expenditures then permitted under the financial plan for the city or such covered organization.

4. The authority's fiscal year shall be July first through June thirtieth.

5. The authority shall adopt guidelines for procurement contracts in accordance with section twenty-eight hundred seventy-nine of this chapter.

§ 3861. Declaration of need for financing assistance to the city. 1. The city shall determine and declare whether it requests the authority to undertake a financing of costs. Any such request shall be made by and through the mayor after approval by the council. Any such financing shall be consistent with the adopted budget and financial plan of the city required under sections thirty-eight hundred fifty-six and thirty-eight hundred fifty-seven of this title, as applicable.

2. Upon declaration by the city of such need, the mayor shall request that the authority provide financing in accordance with the provisions of this title.

3. Upon approval by the authority, in its discretion in accordance with the provisions of this title, of such financing request, the authority may enter into agreements with the city, and the city, acting by the mayor, approved by the council, may enter into agreements with the authority in accordance with the provisions of this title as to the financing of costs by the authority, the application of revenues to the authority to secure its bonds, notes or other obligations, and further assurances in respect of the authority's receipt of such revenues and the fiscal affairs of the city, including but not limited to the manner of preparation of budget reports and financial plans as provided for in sections thirty-eight hundred fifty-six and thirty-eight hundred fifty-seven of this title, as applicable. The authority's revenues shall not be deemed funds of the city. Any such agreements with the city may be pledged by the authority to secure its bonds, notes or other obligations and may not be modified thereafter except as provided by the terms of the pledge.

4. Such agreements with the city shall (a) describe the particular financeable costs to be financed in whole or in part by the authority, (b) describe the plan for the financing of the costs, (c) set forth the method by which and by whom and the terms and conditions upon which money provided by the authority shall be disbursed to the city, (d) where appropriate, provide for the payment of such costs by the city under such contracts as shall be awarded by the city or for the city to make a capital contribution of such proceeds as city funds to another entity for the payment or reimbursement of such costs, and (e) require every contract entered into by the city, or another entity receiving funds from the city, for costs to be financed in whole or in part by the authority to be subject to the provisions of the city charter and other applicable laws governing contracts of the city or such entity, as the case may be.

5. At least annually, commencing no more than one year after the date on which authority bonds, notes or other obligations are first issued, the mayor shall report to the authority, the comptroller, the council, the state comptroller, the chairs of the senate finance committee and the assembly ways and means committee, and the director of the budget on the costs financed by the authority and the amount of such financing over the past year, which report shall describe, by reference to the specific items in the city's budget or financial plan, its compliance therewith.

§ 3862. Bonds, notes or other obligations of the authority. 1. The authority shall have the power and is hereby authorized from time to time to issue bonds, notes or other obligations in such principal amounts as it may determine to be necessary pursuant to section thirty-

eight hundred sixty-one of this title to pay any financeable costs and to fund reserves to secure such bonds, notes or other obligations, including incidental expenses in connection therewith; provided, however, the aggregate principal amounts of such bonds, notes or other obligations outstanding at any one time shall not exceed one hundred seventy-five million dollars, and such bonds shall be tax exempt to the maximum extent practicable, as provided by section thirty-eight hundred sixty-nine of this title. Bonds, notes or other obligations issued by the authority to (a) pay reasonable costs of issuance, as determined by the authority, (b) establish debt service reserve funds, or (c) refund or advance refund any outstanding bonds or notes of the city or the authority shall not count against the above limit on outstanding bonds, notes or other obligations of the authority, nor shall any accretion of principal of bonds that would constitute interest under the Internal Revenue Code of 1986, as amended, count against such limit.

2. The authority may issue bonds, notes or other obligations to refund bonds, notes or other obligations previously issued, but in no event shall the final maturity of any bonds, notes or other obligations of the authority be later than June thirtieth, two thousand thirty-seven. No bond of the authority shall mature more than thirty years from the date of its issue, or after June thirtieth, two thousand thirty-seven, whichever date is earlier.

3. Bonds, notes or other obligations of the authority may be issued, amortized, redeemed and refunded without regard to the provisions of the local finance law.

4. The directors may delegate to the chairperson or other director or officer of the authority the power to set the financial terms of bonds, notes or other obligations.

5. The authority in its sole discretion shall determine that the issuance of its bonds, notes or other obligations is appropriate. Bonds, notes or other obligations shall be authorized by resolution of the authority. Bonds shall bear interest at such fixed or variable rates and shall be in such denominations, be in such form, either coupon or registered, be sold at such public or private sale, be executed in such manner, be denominated in United States currency, be payable in such medium of payment, at such place and be subject to such terms of redemption as the authority may provide in such resolution. No bonds, notes or other obligations of the authority may be sold at private sale unless such sale and the terms thereof have been approved in writing by (a) the state comptroller where such sale is not to the state comptroller, or (b) the director of the budget, where such sale is to the state comptroller.

6. Any resolution or resolutions authorizing bonds, notes or other obligations or any issue of bonds, notes or other obligations may contain provisions which may be a part of the contract with the holders of the bonds, notes or other obligations thereby authorized as to: (a) pledging all or part of the authority's revenues, together with any other moneys, securities or contracts, to secure the payment of the bonds, notes or other obligations, subject to such agreements with bondholders as may then exist; (b) the setting aside of reserves and the creation of sinking funds and the regulation and disposition thereof; (c) limitations on the purposes to which the proceeds from the sale of bonds, notes or other obligations may be applied; (d) limitations on the issuance of additional bonds, notes or other obligations, the terms upon which additional bonds, notes or other obligations may be issued and secured and the refunding of bonds, notes or other obligations; (e) the

procedure, if any, by which the terms of any contract with bondholders may be amended or abrogated, including the proportion of bondholders which must consent thereto and the manner in which such consent may be given; (f) vesting in a trustee or trustees such properties, rights, powers and duties in trust as the authority may determine, which may include any or all of the rights, powers and duties of the trustee appointed by the bondholders pursuant to section thirty-eight hundred sixty-three of this title and limiting or abrogating the rights of the bondholders to appoint a trustee under such section or limiting the rights, duties and powers of such trustee; and (g) defining the acts or omissions of the authority to act which may constitute a default in the obligations and duties of the authority to the bondholders and providing for the rights and remedies of the bondholders in the event of such default, including as a matter of right the appointment of a receiver; provided, however, that such acts or omissions of the authority to act which may constitute a default and such rights and remedies shall not be inconsistent with the general laws of the state and other provisions of this title.

7. In addition to the powers conferred upon the authority in this section to secure its bonds, notes or other obligations, the authority shall have power in connection with the issuance of bonds, notes or other obligations to enter into such agreements for the benefit of the bondholders as the authority may deem necessary, convenient or desirable concerning the use or disposition of its revenues or other moneys, including the entrusting, pledging or creation of any other security interest in any such revenues, moneys and the doing of any act, including refraining from doing any act, which the authority would have the right to do in the absence of such agreements. The authority shall have power to enter into amendments of any such agreements within the powers granted to the authority by this title and to perform such agreements. The provisions of any such agreements may be made a part of the contract with the holders of bonds, notes or other obligations of the authority.

8. Notwithstanding any provision of the uniform commercial code to the contrary, any pledge of or other security interest in revenues, moneys, accounts, contract rights, general intangibles or other personal property made or created by the authority shall be valid, binding and perfected from the time when such pledge is made or other security interest attaches without any physical delivery of the collateral or further act, and the lien of any such pledge or other security interest shall be valid, binding and perfected against all parties having claims of any kind in tort, contract or otherwise against the authority irrespective of whether such parties have notice thereof. No instrument by which such a pledge or security interest is created nor any financing statement need be recorded or filed to be valid and binding.

9. Whether or not the bonds, notes or other obligations of the authority are of such form and character as to be negotiable instruments under the terms of the uniform commercial code, the bonds, notes or other obligations are hereby made negotiable instruments within the meaning of and for all the purposes of the uniform commercial code, subject only to the provisions of the bonds for registration.

10. Neither the directors of the authority nor any person executing bonds, notes or other obligations shall be liable personally thereon or be subject to any personal liability or accountability solely by reason of the issuance thereof. The bonds, notes or other obligations of the authority shall not be a debt of either the state or the city, and neither the state nor the city shall be liable thereon, nor shall they

be payable out of any funds other than those of the authority; and such bonds, notes or other obligations shall contain on the face thereof a statement to such effect.

11. The authority, subject to such agreements with bondholders as then may exist, shall have power to purchase bonds, notes or other obligations of the authority out of any moneys available therefor, which shall thereupon be canceled.

§ 3863. Remedies of bondholders. Subject to any resolution or resolutions adopted pursuant to paragraph (f) of subdivision six of section thirty-eight hundred sixty-two of this title:

1. In the event that the authority shall default in the payment of principal of or interest on any issue of bonds, notes or other obligations after the same shall become due, whether at maturity or upon call for redemption, and such default shall continue for a period of thirty days, or shall default in any agreement made with the holders of any issue of bonds, notes, or other obligations, the holders of at least twenty-five per centum in aggregate principal amount of the bonds, notes or other obligations of such issue then outstanding, by instrument or instruments filed in the office of the clerk of the county and proved or acknowledged in the same manner as a deed to be recorded, may appoint a trustee to represent the holders of such bonds for the purpose provided in this section.

2. Such trustee may, and upon written request of the holders of at least twenty-five per centum in principal amount of such bonds, notes or other obligations outstanding shall, in his or her or its own name: (a) by action or proceeding in accordance with the civil practice law and rules, enforce all rights of the bondholders and require the authority to carry out any other agreements with the holders of such bonds, notes or other obligations and to perform its duties under this title; (b) bring an action or proceeding upon such bonds, notes or other obligations; (c) by action or proceeding, require the authority to account as if it were the trustee of an express trust for the holder of such bonds, notes or other obligations; and (d) by action or proceeding, enjoin any acts or things which may be unlawful or in violation of the rights of the holders of such bonds, notes or other obligations.

3. Such trustee shall, in addition to the provisions of subdivisions one and two of this section, have and possess all of the powers necessary or appropriate for the exercise of any functions specifically set forth in this section or incident to the general representation of bondholders in the enforcement and protection of their rights.

4. The supreme court of the county shall have jurisdiction of any action or proceeding by the trustee on behalf of such bondholders.

§ 3864. Intercept of city tax revenues and state aid revenues. 1. The state comptroller, in accordance with section twelve hundred sixty-one of the tax law, shall pay at least monthly to the authority, for the period beginning upon the effective date of this title through June thirtieth, two thousand thirty-seven, the city tax revenues from the county's taxes imposed pursuant to the authority of section twelve hundred ten of the tax law. During such period, the county shall impose such taxes at a rate of no less than three percent. In addition, during such period, the state comptroller shall make such payments of city tax revenues to the authority pursuant to the then current agreement under subdivision (c) of section twelve hundred sixty-two of the tax law among the county and the cities in the county; provided however, in the event that such agreement shall have expired or been terminated during such period, notwithstanding any other provision of general, special or local

law to the contrary, the state comptroller shall make such payments pursuant to the provisions of paragraph two of subdivision (d) of section twelve hundred sixty-two of the tax law.

2. Commencing on the effective date of this title, and until June thirtieth, two thousand thirty-seven, the state comptroller shall pay state aid revenues to the authority.

3. The city shall have no right, title, or interest in the city tax revenues or state aid revenues paid to the authority pursuant to this section.

§ 3865. Resources of the authority. 1. Subject to the provisions of this title, the directors of the authority shall receive, accept, invest, administer, expend and disburse for its corporate purposes all money of the authority from whatever sources derived including (a) city tax revenues; (b) state aid revenues; (c) the proceeds of bonds, notes or other obligations; and (d) any other payments, gifts or appropriations to the authority from any other source.

2. Subject to the provisions of any contract with bondholders, (a) the money of the authority shall be paid to the authority and shall not be commingled with any other money, and (b) all money received by the authority which, together with other money of the authority available for the expenses of the authority, the payment of debt service and payments to reserve funds, exceeds the amount required for such purposes, as determined by the authority, shall be transferred to the city as frequently as practicable.

3. The money in any of the authority's accounts shall be paid out on checks signed by the treasurer of the authority, or by other lawful and appropriate means such as wire or electronic transfer, on requisitions of the chairperson of the authority or of such other officer as the directors shall authorize to make such requisition, or pursuant to a bond resolution or trust indenture.

4. All deposits of authority money shall be secured by obligations of the United States or of the state or of the city at a market value at least equal at all times to the amount of the deposit, and all banks and trust companies are authorized to give such security for such deposits. The authority shall have the power, notwithstanding the provisions of this section, to contract with the holders of any of its bonds, notes or other obligations as to the custody, collection, securing, investment and payment of any money of the authority or any money held in trust or otherwise for the payment of bonds, notes or other obligations or in any way to secure bonds, notes or other obligations, and to carry out any such contract notwithstanding that such contract may be inconsistent with the other provisions of this title. Money held in trust or otherwise for the payment of bonds, notes or other obligations or in any way to secure bonds, notes or other obligations, and deposits of such money, may be secured in the same manner as money of the authority, and all banks and trust companies are authorized to give such security for such deposits.

5. Revenues of the authority shall be applied in the following order of priority: first to pay debt service on the authority's bonds, notes, or other obligations; then to pay the authority's operating expenses not otherwise provided for; and then, subject to the authority's agreements with the city, to transfer the balance of revenues not required to meet contractual or other obligations of the authority to the city as frequently as practicable.

6. (a) Any such payment of state aid revenues to the authority shall not obligate the state to make available, nor entitle the city to receive, any additional state aid.

(b) Nothing contained in this title shall be construed to create a debt of the state within the meaning of any constitutional or statutory provisions. Any provision with respect to state aid or state aid revenues shall be deemed executory only to the extent of moneys available, and no liability shall be incurred by the state beyond the moneys available for that purpose, and any such payment by the comptroller of state aid revenues is subject to annual appropriation of state aid by the state legislature.

(c) Nothing contained in this title shall be deemed to restrict the right of the state to amend, repeal, modify, or otherwise alter section fifty-four of the state finance law or any provision relating to state aid to municipalities. The authority shall include within any resolution, contract, or agreement with holders of its bonds, notes or other obligations a provision which states that no default occurs as a result of the state's exercising its right to amend, repeal, modify, or otherwise alter section fifty-four of the state finance law or any other provision relating to state aid to municipalities.

§ 3866. Agreement with the state. 1. The state does hereby pledge to and agree with the holders of any issue of bonds, notes or other obligations issued by the authority pursuant to this title and secured by such a pledge that the state will not limit, alter or impair the rights hereby vested in the authority to fulfill the terms of any agreements made with such holders pursuant to this title, or in any way impair the rights and remedies of such holders or the security for such bonds, notes or other obligations for so long as such bonds, notes or other obligations are outstanding and until all costs and expenses in connection with any action or proceeding by or on behalf of such holders, are fully paid and discharged. The authority is authorized to include this pledge and agreement of the state in any agreement with the holders of such bonds, notes or other obligations. Nothing contained in this title shall be deemed to restrict the right of the state to amend, modify, repeal or otherwise alter: (a) section fifty-four of the state finance law or any other provision relating to state aid, or (b) statutes imposing or relating to taxes or fees, or appropriations relating thereto.

2. The authority shall not include within any resolution, contract or agreement with holders of the bonds, notes or other obligations issued under this title any provision which provides that a default occurs as a result of the state exercising its right to amend, repeal, modify or otherwise alter: (a) section fifty-four of the state finance law or any other provision relating to state aid or (b) such taxes, fees, or appropriations. Nothing in this title shall be deemed to obligate the state to make any payments or impose any taxes to satisfy the debt service obligations of the authority.

§ 3867. Agreement with the city. The city hereby covenants and agrees with the holders of bonds, notes or other obligations issued by the authority pursuant to this title, that the city will not take actions which limit, or in any way impair the rights and remedies of such holders or the security for such bonds, notes or other obligations while such bonds, notes or other obligations are outstanding.

§ 3868. Bonds, notes or other obligations legal for investment and deposit. The bonds, notes or other obligations of the authority are hereby made securities in which all public officers and bodies of the

state and all public corporations, municipalities and municipal subdivisions, all insurance companies and associations and other persons carrying on an insurance business, all banks, bankers, trust companies, savings banks and savings associations including savings and loan associations, building and loan associations, investment companies and other persons carrying on a banking business, all administrators, conservators, guardians, executors, trustees and other fiduciaries, and all other persons whatsoever who are now or may hereafter be authorized to invest in bonds, notes or other obligations of the state, may properly and legally invest funds, including capital, in their control or belonging to them. The bonds, notes or other obligations are also hereby made securities which may be deposited with and may be received by all public officers and bodies of the state and all municipalities and public corporations for any purpose for which the deposit of bonds, notes or other obligations of the state is now or may hereafter be authorized.

§ 3869. Tax exemption. 1. It is hereby determined that the creation of the authority and the carrying out of its corporate purposes are in all respects for the benefit of the people of the state of New York and are public purposes. Accordingly, the authority shall be regarded as performing an essential governmental function in the exercise of the powers conferred upon it by this title. The authority shall not be required to pay any fees, taxes, special ad valorem levies or assessments of any kind, whether state or local, including, but not limited to, fees, taxes, special ad valorem levies or assessments on real property, franchise taxes, sales taxes or other taxes, upon income or with respect to any property owned by it or under its jurisdiction, control or supervision, or upon the uses thereof, or upon or with respect to its activities or operations in furtherance of the powers conferred upon it by this title, or upon or with respect to any fares, tolls, rentals, rates, charges, fees, revenues or other income received by the authority.

2. Any bonds, notes or other obligations issued pursuant to this title, and the income therefrom shall, to the maximum extent practicable, be exempt from taxation.

§ 3870. Actions against the authority. 1. Except in an action for wrongful death, no action or proceeding shall be prosecuted or maintained against the authority for personal injury or damage to real or personal property alleged to have been sustained by reason of the negligence or wrongful act of the authority or of any director, officer, agent or employee thereof, unless (a) it shall appear by and as an allegation in the complaint or moving papers that a notice of claim shall have been made and served upon the authority, within the time limit prescribed by and in compliance with section fifty-e of the general municipal law, (b) it shall appear by and as an allegation in the complaint or moving papers that at least thirty days have elapsed since the service of such notice and that adjustment or payment thereof has been neglected or refused, and (c) the action or proceeding shall be commenced within one year after the happening of the event upon which the claim is based. An action against the authority for wrongful death shall be commenced in accordance with the notice of claim and time limitation provisions of title eleven of article nine of this chapter.

2. Wherever a notice of claim is served upon the authority, it shall have the right to demand an examination of the claimant relative to the occurrence and extent of the injuries or damages for which claim is made, in accordance with the provisions of section fifty-h of the general municipal law.

3. The authority may require any person presenting for settlement an account or claim for any cause whatever against the authority to be sworn before a director, counsel or an attorney, officer or employee thereof designated for such purpose, concerning such account or claim and when so sworn, to answer orally as to any facts relative to such account or claim. The authority shall have power to settle or adjust any claims in favor of or against the authority.

4. The rate of interest to be paid by the authority upon any judgment for which it is liable, other than a judgment on bonds, notes or other obligations, shall not exceed the maximum rate of interest on judgments and accrued claims against municipal authorities as provided in the general municipal law. Interest on payments of principal or interest on any bonds, notes or other obligations in default shall accrue at the rate specified in the general municipal law until paid or otherwise satisfied.

5. The venue of every action, suit or special proceeding brought against the authority shall be the supreme court in the county.

6. Neither any director of the authority nor any officer, employee, or agent of the authority, while acting within the scope of his or her authority, shall be subject to any liability resulting from exercising or carrying out any of the powers given in this title.

7. Indemnification. (a) The state shall hold harmless and indemnify directors, officers and employees of the authority, all of whom shall be deemed officers and employees of the state for purposes of section seventeen of the public officers law, against any claim, demand, suit, or judgment arising by reason of any act or omission to act by such director, officer, or employee occurring in the discharge of his or her duties and within the scope of his or her service on behalf of the authority including any claim, demand, suit or judgment based on allegations that financial loss was sustained by any person in connection with the acquisition, disposition or holding of securities or other obligations. In the event of any such claim, demand, suit or judgment, a director, officer or employee of the authority shall be held harmless and indemnified, notwithstanding the limitations of subdivision one of section seventeen of the public officers law, unless such individual is found by a final judicial determination not to have acted, in good faith, for a purpose which he or she reasonably believed to be in the best interest of the authority or not to have had reasonable cause to believe that his or her conduct was lawful.

(b) In connection with any such claim, demand, suit, or judgment, any director, officer or employee of the authority shall be entitled to representation by private counsel of his or her choice in any civil judicial proceeding whenever the attorney general determines based upon his or her investigation and review of the facts and circumstances of the case that representation by the attorney general would be inappropriate. The attorney general shall notify the individual in writing of such determination that the individual is entitled to be represented by private counsel. The attorney general may require, as a condition to payment of the fees and expenses of such representative, that appropriate groups of such individuals be represented by the same counsel. If the individual or groups of individuals is entitled to representation by private counsel under the provisions of this section, the attorney general shall so certify to the state comptroller. Reasonable attorneys' fees and litigation expenses shall be paid by the state to such private counsel from time to time during the pendency of the civil action or proceeding, subject to certification that the individual is

entitled to representation under the terms and conditions of this section by the authority, upon the audit and warrant of the state comptroller. The provisions of this subdivision shall be in addition to and shall not supplant any indemnification or other benefits heretofore or hereafter conferred upon directors, officers, or employees of and representatives to the authority by section seventeen of the public officers law, by action of the authority or otherwise. The provisions of this subdivision shall inure only to directors, officers and employees of the authority, shall not enlarge or diminish the rights of any other party, and shall not impair, limit or modify the rights and obligations of any insurer under any policy of insurance.

§ 3871. Audits. 1. The accounts of the authority shall be subject to the audit of the comptroller and the state comptroller. In addition, the authority shall be subject to an annual financial audit performed by an independent certified accountant selected by the authority. Such audit report shall be submitted to the city, the presiding officer, the comptroller, the governor, the state comptroller, the chair and ranking minority member of the senate finance committee and the chair and ranking minority member of the assembly ways and means committee.

2. For each fiscal year during the existence of the authority, and within one hundred twenty days after the close of the city's fiscal year, the city shall submit its audited financial statements to the authority.

§ 3872. Effect of inconsistent provisions. Insofar as the provisions of this title are inconsistent with the provisions of any other act, general or special, or of any charter, local law, ordinance or resolution of any municipality, the provisions of this title shall be controlling. Nothing contained in this section shall be held to supplement or otherwise expand the powers or duties of the authority otherwise set forth in this title.

§ 3873. Separability; construction. If any clause, sentence, paragraph, section, or part of this title shall be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair or invalidate the remainder thereof, but shall be confined in its operation to the clause, sentence, paragraph, section, or part thereof involved in the controversy in which such judgment shall have been rendered. The provisions of this title shall be liberally construed to assist the effectuation of the public purposes furthered hereby.

§ 3. Subdivision (a) of section 1261 of the tax law, as separately amended by chapter 84 and section 2 of part A of chapter 88 of the laws of 2000, is amended to read as follows:

(a) All taxes, penalties and interest imposed by cities, counties or school districts under the authority of section twelve hundred ten, twelve hundred eleven, twelve hundred twelve or twelve hundred twelve-A of this article, which are collected by the commissioner, shall be deposited daily with such responsible banks, banking houses or trust companies, as may be designated by the state comptroller, to the credit of the comptroller, in trust for the cities, counties or school districts imposing the tax or for the Nassau county interim finance authority or the Buffalo fiscal stability authority created by the public authorities law, to the extent that net collections from taxes imposed by Nassau county are payable to [~~such~~] the Nassau county interim finance authority or to the extent that net collections from taxes imposed by Erie county are payable to the Buffalo fiscal stability authority, or for any public benefit corporation to which the tax may be payable pursuant to law. Such deposits and deposits received pursuant to

subdivision (b) of section twelve hundred fifty-two of this article shall be kept in trust and separate and apart from all other monies in the possession of the comptroller. The comptroller shall require adequate security from all such depositories of such revenue collected by the commissioner, including the deposits received pursuant to subdivision (b) of section twelve hundred fifty-two of this article. Any amount payable to such [~~authority~~] **authorities** pursuant to the public authorities law shall, at the time it is otherwise payable to Nassau county **or Erie county, respectively,** as specified in this section, be paid instead to such **respective** authority. Any amount payable to a public benefit corporation pursuant to law shall, at the time it is otherwise payable to the taxing jurisdiction as specified in this section, be paid instead to such public benefit corporation.

§ 4. Subdivision (c) of section 1261 of the tax law, as amended by chapter 84 of the laws of 2000, is amended to read as follows:

(c) The comptroller, after reserving such refund fund and such costs shall, on or before the twelfth day of each month pay to the appropriate fiscal officers of the foregoing taxing jurisdictions the taxes, penalties and interest imposed by such jurisdictions under the authority of sections twelve hundred ten through twelve hundred twelve-A, collected by the commissioner pursuant to this article during the next preceding calendar month, provided, however, that the comptroller shall on or before the last day of June and December make a partial payment consisting of the collections made during and including the first twenty-five days of said months to said fiscal officers of the foregoing taxing jurisdictions. However, the taxes, penalties and interest from the additional one percent rate which the city of Yonkers is authorized to impose pursuant to section twelve hundred ten, after the comptroller has reserved such refund fund and such cost shall be paid to the special sales and compensating use tax fund for the city of Yonkers established by section ninety-two-f of the state finance law at the times set forth in the preceding sentence. However, the taxes, penalties and interest which the county of Nassau **or the county of Erie** is authorized to impose pursuant to section twelve hundred ten of this article, other than such taxes in the amounts described, respectively, in subdivisions one and two of section one thousand two hundred sixty-two-e of this article, during the period that such section authorizes Nassau county to establish special or local assistance programs thereunder, together with any penalties and interest related thereto, and after the comptroller has reserved such refund fund and such costs, shall, commencing on the next payment date after the effective date of this sentence and of each month thereafter, until such date as the Nassau county interim finance authority shall have no obligations outstanding, **or the Buffalo fiscal stability authority shall cease to exist,** be paid by the comptroller to the Nassau county interim finance authority to be applied by the Nassau county interim finance authority, **or to the Buffalo fiscal stability authority to be applied by the Buffalo fiscal stability authority, as the case may be,** in the following order of priority: first pursuant to the Nassau county interim finance authority's contracts with bondholders **or the Buffalo fiscal stability authority's contracts with bondholders, respectively,** then to pay the Nassau county interim finance authority's operating expenses not otherwise provided for **or the Buffalo fiscal stability authority's operating expenses not otherwise provided for, respectively,** and then pursuant to the Nassau county interim finance authority's agreements with the county **of Nassau**, which agreements shall require the Nassau county interim finance authority to transfer such

taxes, penalties and interest remaining after providing for contractual or other obligations of the Nassau county interim finance authority, and subject to any agreement between such authority and the county of Nassau, to the county of Nassau as frequently as practicable **or the Buffalo fiscal stability authority's agreements with the city of Buffalo, which agreements shall require the Buffalo fiscal stability authority to transfer such taxes, penalties and interest remaining after providing for contractual or other obligations of the Buffalo fiscal stability authority, and subject to any agreement between such authority and the city of Buffalo, to the city of Buffalo as frequently as practicable**. During the period that the comptroller is required to make payments to the Nassau county interim finance authority described in the previous sentence, the county **of Nassau** shall have no right, title or interest in or to such taxes, penalties and interest required to be paid to the Nassau county interim finance authority, except as provided in such authority's agreements with the county **of Nassau. During the period that the comptroller is required to make payments to the Buffalo fiscal stability authority described in the second previous sentence, the city of Buffalo shall have no right, title or interest in or to such taxes, penalties and interest required to be paid to the Buffalo fiscal stability authority, except as provided in such authority's agreements with the city of Buffalo**. The amount so payable shall be certified to the comptroller by the commissioner or the commissioner's delegate, who shall not be held liable for any inaccuracy in such certificate. Provided, however, any such certification may be based on such information as may be available to the commissioner at the time such certificate must be made under this section and may be estimated on the basis of percentages or other indices calculated from distributions for prior periods. Where the amount so paid over to any city, county, school district or the special sales and compensating use tax fund for the city of Yonkers in any such distribution or to such authority is more or less than the amount then due to such city, county, school district or such fund or to such authority, the amount of the overpayment or underpayment shall be certified to the comptroller by the commissioner or the commissioner's delegate, who shall not be held liable for any inaccuracy in such certificate. The amount of the overpayment or underpayment shall be so certified to the comptroller as soon after the discovery of the overpayment or underpayment as reasonably possible and subsequent payments and distributions by the comptroller to such city, county, school district or the special sales and compensating use tax fund for the city of Yonkers or to such authority shall be adjusted by subtracting the amount of any such overpayment from or by adding the amount of any such underpayment to such number of subsequent payments and distributions as the comptroller and the commissioner shall consider reasonable in view of the amount of the overpayment or underpayment and all other facts and circumstances.

§ 5. Subdivision (d) of section 1262 of the tax law, as amended by chapter 1190 of the laws of 1971, the opening paragraph as amended and the second undesignated paragraph as added by chapter 444 of the laws of 1996, and the closing paragraph as amended by chapter 678 of the laws of 1973, is amended to read as follows:

(d) (1) Where a county and a city therein both impose the same taxes described in sections twelve hundred two, twelve hundred three or twelve hundred ten, the county shall have power to impose or continue to impose such taxes on the area of the county outside such city up to the maximum rate authorized therefor. In such event, the portion of the net

collections received by the county by reason of its additional rate on such area, shall be allocated quarterly to the several cities and towns in such area on the basis of the ratio which the full valuation of real property in each city or town bears to the aggregate full valuation of real property in all of the cities and towns in such area provided, however, that, in such event, in Niagara county, such portion of net collections received by Niagara county shall be allocated quarterly to the several cities and towns in such area on the basis of the ratio which the population of each city or town bears to the aggregate population of all of the cities and towns in such area, such populations determined in accordance with the latest decennial federal census or special population census taken pursuant to section twenty of the general municipal law completed and published prior to the end of the quarter for which the allocation is made, which special census must include the entire area of the county. The amount allocated to each town shall be applied first to reduce county taxes levied upon real property in such town and any balance remaining shall be applied to reduce general town taxes levied upon real estate; provided, however, that any town or village other than any town or village within a county having a population of one million or more and containing not more than three towns, shall have power, in the manner provided in subdivision (c) of this section, to elect to receive a direct payment of the amounts which would be so applied to reduce county taxes and general town taxes levied upon real property in such town or village. Where any village has elected to be paid directly as provided in this subdivision, the amount to be paid to such village shall be determined by the ratio that the full valuation of real property in the village or portion thereof within the town in which such village is located bears to the full valuation of real property in the entire town. If a village wholly or partially within a town has so elected to be paid directly, but the town in which such village is located has not so elected, the amount allocated to the town in which such village is wholly or partially situated shall be applied to reduce county taxes and general town taxes in the area of the town outside such village or villages. If the amount allocated to a town exceeds the amount of the county taxes and general town taxes levied upon real property in the town, the excess shall be apportioned between the town and each village, if any, wholly or partially situated therein, and paid over or applied in the manner provided in subdivision (c) of this section. The amount allocated to each city in such area shall be similarly applied to reduce county taxes levied upon real property in such city, except that if any such city except any city within a single county having a population of one million or more and containing no more than three towns, shall so provide in the manner provided in subdivision (c) of this section, the amount which would be so applied to reduce county taxes levied upon real property in such city shall be paid directly to the city in lieu of such tax reduction. If the amount allocated to the city exceeds the amount of the county tax levied upon real property in the city, such excess shall be paid to the city.

Notwithstanding any provision of this section to the contrary, where a municipal assistance corporation has been created under article ten of the public authorities law for a city located in a county, any amount which such county allocates to such city under this subdivision shall be payable directly to such city and shall not be provided by reduction of the county tax levied upon real property in such city for so long as such municipal assistance corporation shall exist.

Any local law, ordinance or resolution enacted by a city, town or village pursuant to this subdivision shall only be effective for the calendar year or years subsequent [~~too~~] to its enactment and, further, shall only be effective if it is mailed by registered or certified mail to the chief fiscal officer of the county in which the city, [~~or~~] town or village is located before the first day of September preceding the calendar year for which the election is made by such local law, ordinance or resolution. Such local law, ordinance or resolution shall remain in effect for subsequent calendar years until rescinded by local law, ordinance or resolution, but the enactment shall rescind the election only if it is mailed, in the same manner already provided for in this subdivision, to the chief fiscal officer of the county in which the city, town or village is located before the first day of September preceding the calendar year for which the [~~recission~~] rescission to apply. The foregoing provisions of this paragraph notwithstanding, where a county imposes a sales and use tax to be effective on a date after the adoption of its budget but within the fiscal year for which such budget has been adopted, and the estimated revenues from such tax include net collections received by the county by reason of its additional rate on the area of the county outside a city imposing the same taxes, and such net collections have not been included in budget revenues for such fiscal year for allocation in reduction of taxes on real property as provided in this subdivision, a local law, ordinance or resolution enacted by a city, town or village pursuant to this subdivision shall be effective as of the effective date of such tax if mailed by registered or certified mail to the chief fiscal officer of the county in which the city, town or village is located within thirty days after the enactment by the county of the local law, ordinance or resolution imposing such tax.

(2) Notwithstanding any provision of general, special or local law to the contrary, if at any time from the effective date of the Buffalo fiscal stability authority act until June thirtieth, two thousand thirty-seven any city in the county of Erie imposes sales and compensating use taxes described in section twelve hundred ten of this article, then the county of Erie shall not be required to allocate under paragraph one of this subdivision, any net collections from its taxes imposed during such period; instead it shall continue to allocate net collections from its taxes to any city in the county which does not impose such taxes and to the area of the county outside the cities, in accordance with the terms of the most current agreement among such county and the cities in the county entered into pursuant to subdivision (c) of this section.

§ 6. Sections 3700, 3701 and 3702 of the public authorities law, as renumbered by chapter 5 of the laws of 1997, are renumbered sections 3900, 3901 and 3902.

§ 7. If any section, part or provision of this act shall be adjudged unconstitutional or invalid or ineffective by any court of this state, any party in interest shall have a direct appeal as of right to the court of appeals of the state of New York, and such appeal shall have preference over all other causes. Service upon the adverse party of a notice of appeal shall stay the effect of the judgment or order appealed from pending the hearing and determination of the appeal.

§ 8. Separability. If any clause, sentence, paragraph, section or part of this act be adjudged by any court of competent jurisdiction to be unconstitutional, invalid, or ineffective, such judgment shall not affect, impair or invalidate the remainder thereof but shall be confined in its operation to the clause, sentence, paragraph, section or part

thereof directly involved in the controversy in which such judgment shall have been rendered.

§ 9. This act shall take effect immediately.

The Legislature of the STATE OF NEW YORK ss:

Pursuant to the authority vested in us by section 70-b of the Public Officers Law, we hereby jointly certify that this slip copy of this session law was printed under our direction and, in accordance with such section, is entitled to be read into evidence.

JOSEPH L. BRUNO
Temporary President of the Senate

SHELDON SILVER
Speaker of the Assembly

STATE OF NEW YORK

7281--A

IN SENATE
CHAP 80 LAWS OF 2004

May 11, 2004

Introduced by Sen. VOLKER -- read twice and ordered printed, and when printed to be committed to the Committee on Corporations, Authorities and Commissions -- committee discharged, bill amended, ordered reprinted as amended and recommitted to said committee

AN ACT to amend the public authorities law, the tax law and the local finance law, in relation to revenues of the Buffalo fiscal stability authority

The People of the State of New York, represented in Senate and Assembly, do enact as follows:

1 Section 1. Subdivision 21 of section 3851 of the public authorities
2 law, as added by chapter 122 of the laws of 2003, is amended to read as
3 follows:
4 21. "Revenues" means revenues of the authority consisting of city tax
5 revenues, school district tax revenues, state aid revenues, and all
6 other aid, rents, fees, charges, gifts, payments and other income and
7 receipts paid or payable to the authority or a trustee for the account
8 of the authority, to the extent such amounts are pledged to bondholders.
9 § 2. Section 3851 of the public authorities law is amended by adding
10 three new subdivisions 26, 27 and 28 to read as follows:
11 26. "School district tax revenues" means the portion of the county's
12 "net collections," as defined in section twelve hundred sixty-two of the
13 tax law, payable to the city's dependent school district by the county
14 pursuant to the authority of subdivision (a) of section twelve hundred
15 sixty-two of the tax law.
16 27. "Cash flow borrowings" means:
17 (a) notes issued by the authority on behalf of the city, the city's
18 dependent school district or any other covered organization, the
19 proceeds of which are used to address temporary cash flow needs of the
20 city, the city's dependent school district or the applicable covered
21 organization; and
22 (b) bonds, notes and other obligations issued by the authority to
23 refund notes of the authority described in paragraph (a) of this subdi-
24 vision.

EXPLANATION--Matter in italics (underscored) is new; matter in brackets [ ] is old law to be omitted.

LBD18041-02-4

28. "Obligations of the city" means bonds, notes and other evidences of indebtedness issued or incurred by the city.

§ 3. Paragraph (a-1) of subdivision 2 of section 3857 of the public authorities law, as added by chapter 122 of the laws of 2003, is amended to read as follows:

(a-1) Prior to the approval or disapproval of the financial plan of the city by the authority, the authority shall request community, educational or other entity or entities to seek public input and comment relating to the city's and/or any covered organization's financial plan. Such community, educational or other entity or entities shall report to the authority on such public input and comment ten days after the city has submitted the financial plan to the authority. The authority shall evaluate any proposals submitted to the authority for cost savings and/or service delivery enhancement in the city, and shall periodically, at least twice a year, summarize in a public report the authority's findings with respect to such proposals that, in the opinion of the authority, merit further consideration based on their potential impact on the city's budget. The authority shall provide public notice of the dates on which it plans to make such public reports.

§ 4. Subdivisions 1, 3 and 4 of section 3861 of the public authorities law, as added by chapter 122 of the laws of 2003, are amended to read as follows:

1. The city shall determine and declare whether it requests the authority to undertake a financing of costs, including costs of the city's dependent school district or any other covered organization. Any such request shall be made by and through the mayor after approval by the council. Any such financing shall be consistent with the adopted budget and financial plan of the city required under sections thirty-eight hundred fifty-six and thirty-eight hundred fifty-seven of this title, as applicable.

3. Upon approval by the authority, in its discretion in accordance with the provisions of this title, of such financing request, the authority may enter into agreements with the city, for itself or on behalf of the city's dependent school district or any other covered organization, as applicable, and the city, acting by the mayor, approved by the council, may enter into agreements with the authority in accordance with the provisions of this title as to the financing of costs by the authority, the application of revenues to the authority to secure its bonds, notes or other obligations, and further assurances in respect of the authority's receipt of such revenues and the fiscal affairs of the city, including but not limited to the manner of preparation of budget reports and financial plans as provided for in sections thirty-eight hundred fifty-six and thirty-eight hundred fifty-seven of this title, as applicable. The authority's revenues shall not be deemed funds of the city. Any such agreements with the city may be pledged by the authority to secure its bonds, notes or other obligations and may not be modified thereafter except as provided by the terms of the pledge.

4. Such agreements with the city shall (a) describe the particular financeable costs to be financed in whole or in part by the authority, (b) describe the plan for the financing of the costs, (c) set forth the method by which and by whom and the terms and conditions upon which money provided by the authority shall be disbursed to the city for itself or on behalf of the city's dependent school district or other covered organization, as applicable, (d) where appropriate, provide for the payment of such costs by the city under such contracts as shall be awarded by the city or for the city to make a capital contribution of

such proceeds as city funds to another entity for the payment or reimbursement of such costs, and (e) require every contract entered into by the city, or another entity receiving funds from the city, for costs to be financed in whole or in part by the authority to be subject to the provisions of the city charter and other applicable laws governing contracts of the city or such entity, as the case may be.

§ 5. Subdivision 1 of section 3862 of the public authorities law, as added by chapter 122 of the laws of 2003, is amended to read as follows:

1. The authority shall have the power and is hereby authorized from time to time to issue bonds, notes or other obligations in such principal amounts as it may determine to be necessary pursuant to section thirty-eight hundred sixty-one of this title to pay any financeable costs and to fund reserves to secure such bonds, notes or other obligations, including incidental expenses in connection therewith; provided, however, the aggregate principal amounts of such bonds, notes or other obligations outstanding at any one time shall not exceed one hundred seventy-five million dollars, and such bonds shall be tax exempt to the maximum extent practicable, as provided by section thirty-eight hundred sixty-nine of this title. Bonds, notes or other obligations issued by the authority [to] (a) to pay reasonable costs of issuance, as determined by the authority, (b) to establish debt service reserve funds, [or] (c) to refund or advance refund any outstanding bonds or notes of the city or the authority, or (d) as cash flow borrowings shall not count against the above limit on outstanding bonds, notes or other obligations of the authority, nor shall any accretion of principal of bonds that would constitute interest under the Internal Revenue Code of 1986, as amended, count against such limit; provided, however, that the aggregate principal amount of cash flow borrowings outstanding at any one time shall not exceed one hundred forty-five million dollars.

§ 6. Section 3862 of the public authorities law is amended by adding a new subdivision 7-a to read as follows:

7-a. Whenever a series of bonds, notes or other obligations of the authority is issued pursuant to this section for purposes other than deficit financing authorized by section thirty-eight hundred fifty-seven of this title, the payment of the proceeds of such series of bonds, notes or other obligations to the city may be, at the request of the authority, evidenced by obligations of the city issued in accordance with applicable provisions of the state constitution and local finance law then in effect at the time any such obligations are issued, provided that the principal amount of the authority's bonds, notes or other obligations issued in connection with any such exchange shall not exceed the principal amount of such obligations of the city and accrued interest thereon at the stated rate to the date of such exchange, and provided further, however, that the principal payments on any such issue of city obligations shall in no event be scheduled to fall on a date later than the date on which falls a corresponding amount of scheduled principal payments on the series of bonds, notes or other obligations of the authority originally issued to provide such proceeds or issued to refund bonds, notes or other obligations issued to provide such proceeds.

§ 7. Section 3864 of the public authorities law, as added by chapter 122 of the laws of 2003, is amended to read as follows:

§ 3864. Intercept of city tax revenues, school district tax revenues and state aid revenues. 1. The state comptroller, in accordance with section twelve hundred sixty-one of the tax law, shall pay at least monthly to the authority, (a) for the period beginning upon the effective date of this title through June thirtieth, two thousand thirty-sev-

en, [the] city tax revenues [from the county's taxes imposed pursuant to the authority of section twelve hundred ten of the tax law. During such period] and, (b) for the period beginning July first, two thousand four, and ending June thirtieth, two thousand thirty-seven, during which the county sets aside net collections for educational purposes pursuant to the authority of subdivision (a) of section twelve hundred sixty-two of the tax law, school district tax revenues. During the period beginning on the effective date of this title through June thirtieth, two thousand thirty-seven, the county shall impose such taxes pursuant to the authority of subdivision (a) of section twelve hundred ten of the tax law at a rate of no less than three percent. In addition, during such [period] periods, respectively, the state comptroller shall [make such payments of] pay to the authority (i) city tax revenues [to the authority] pursuant to the then current agreement under subdivision (c) of section twelve hundred sixty-two of the tax law among the county and the cities in the county and (ii) school district tax revenues; provided however, in the event that such agreement among the county and such cities shall have expired or been terminated during such period, notwithstanding any other provision of general, special or local law to the contrary, the state comptroller shall make such payments of city tax revenues to the authority pursuant to the provisions of paragraph two of subdivision (d) of section twelve hundred sixty-two of the tax law.

2. Commencing on the effective date of this title, and until June thirtieth, two thousand thirty-seven, the state comptroller shall pay state aid revenues to the authority.

3. The city shall have no right, title, or interest in the city tax revenues or state aid revenues paid to the authority pursuant to this section; and the school district shall have no right, title, or interest in the school district tax revenues paid to the authority pursuant to this section.

§ 8. Subdivisions 1, 2 and 5 of section 3865 of the public authorities law, as added by chapter 122 of the laws of 2003, are amended to read as follows:

1. Subject to the provisions of this title, the directors of the authority shall receive, accept, invest, administer, expend and disburse for its corporate purposes all [money] moneys of the authority from whatever [sources] source derived including (a) [city tax] revenues[;] and (b) [state aid revenues; (c) the] proceeds of bonds, notes or other obligations[; and (d) any other payments, gifts or appropriations to the authority from any other source].

2. Subject to the provisions of any contract with bondholders, [(a) the money] revenues of the authority shall be paid to the authority and shall not be commingled with any other money[, and (b) all money received by the authority which, together with other money of the authority available for the expenses of the authority, the payment of debt service and payments to reserve funds, exceeds the amount required for such purposes, as determined by the authority, shall be transferred to the city as frequently as practicable].

5. Revenues of the authority shall be applied in the following order of priority: first to pay debt service or for set asides to pay debt service on the authority's bonds, notes, or other obligations[;] and to replenish any reserve funds securing such bonds, notes or other obligations of the authority, in accordance with the provision of any indenture or bond resolution of the authority; then to pay the authority's operating expenses not otherwise provided for; and then, subject to the authority's [agreements] agreement with the city, for itself or on

behalf of the city's dependent school district and any other covered organization, to transfer as frequently as practicable the balance of revenues not required to meet contractual or other obligations of the authority to the city or the city's dependent school district as [frequently as practicable] provided in subdivision seven of this section.

§ 9. Section 3865 of the public authorities law is amended by adding a new subdivision 7 to read as follows:

7. On a monthly basis, the authority shall prepare and provide to the city and the city's dependent school district a detailed separate accounting of all revenues received and payments and debt service set asides made, as attributable to the city and the city's dependent school district. Such accounting shall reflect (a) the amount of state aid revenues, city tax revenues and school district tax revenues received during such month, (b) the respective portion of debt service paid or set aside during such month by the authority for its notes, bonds and other obligations attributable to the city and the city's dependent school district; (c) the respective portion of reserve fund replenishment made or set aside during such month by the authority in connection with its notes, bonds and other obligations attributable to the city and the city's dependent school district; and (d) the respective portion of administrative expenses of the authority paid or set aside during such month by the authority attributable to the city and the city's dependent school district. As soon as practicable after each monthly payment or set aside, the authority shall make respective payments of the remaining monthly balance or revenues to the city and the city's dependent school district in accordance with such separate accounting. To the extent that such respective monthly payments of the remaining balance of revenues result in an overpayment or underpayment to the city or the city's dependent school district, the authority shall in the immediately subsequent month, after making debt service payments or debt service set asides, replenishing any reserve funds and paying the administrative expenses of the authority for such month, make an adjustment in favor of the city or the city's dependent school district, as the case may be, before determining the remaining amount of the balance of revenues for such subsequent month and paying such remaining monthly balance of revenues to the city and the city's dependent school district. Nothing in this title shall be deemed to restrict the authority of the state comptroller and the commissioner of taxation and finance to adjust for overpayments or underpayments pursuant to the tax law.

§ 10. Section 3866 of the public authorities law, as added by chapter 122 of the laws of 2003, is amended to read as follows:

§ 3866. Agreement with the state. 1. The state does hereby pledge to and agree with the holders of any issue of bonds, notes or other obligations issued by the authority pursuant to this title and secured by such a pledge that the state will not limit, alter or impair the rights hereby vested in the authority to fulfill the terms of any agreements made with such holders pursuant to this title, or in any way impair the rights and remedies of such holders or the security for such bonds, notes or other obligations [for so long as] until such bonds, notes or other obligations [are outstanding] together with the interest thereon and [until] all costs and expenses in connection with any action or proceeding by or on behalf of such holders, are fully paid and discharged. The authority is authorized to include this pledge and agreement of the state in any agreement with the holders of such bonds, notes or other obligations. Nothing contained in this title shall be

deemed to restrict [the] any right of the state to amend, modify, repeal or otherwise alter: (a) section fifty-four of the state finance law or any other provision relating to state aid, or (b) statutes imposing or relating to taxes or fees, or appropriations relating thereto.

2. The authority shall not include within any resolution, contract or agreement with holders of the bonds, notes or other obligations issued under this title any provision which provides that a default occurs as a result of the state exercising its right to amend, repeal, modify or otherwise alter: (a) section fifty-four of the state finance law or any other provision relating to state aid or (b) [such] statutes imposing or relating to taxes, fees, or appropriations relating thereto. Nothing in this title shall be deemed to obligate the state to make any payments or impose any taxes to satisfy the debt service obligations of the authority.

§ 11. The public authorities law is amended by adding a new section 3866-a to read as follows:

§ 3866-a. Agreement with the county. 1. The county does hereby covenant and agree with the holders of any issue of bonds, notes or other obligations issued by the authority pursuant to this title and secured by such covenant and agreement that the county will not limit, alter or impair the rights hereby vested in the authority to fulfill the terms of any agreements made with such holders pursuant to this title, or in any way impair the rights and remedies of such holders or the security for such bonds, notes or other obligations until such bonds, notes or other obligations, together with the interest thereon and all costs and expenses in connection with any action or proceeding by or on behalf of such holders are fully paid and discharged. The authority is authorized to include this covenant and agreement of the county in any agreement with the holders of such bonds, notes or other obligations. Nothing contained in this title shall be deemed to restrict any right of the county to amend, modify, repeal or otherwise alter any local laws, ordinances or resolutions imposing or relating to taxes or fees, or appropriations relating to such taxes or fees, or setting aside net collections for educational purposes pursuant to the authority of subdivision (a) of section twelve hundred sixty-two of the tax law, so long as, after giving effect to such amendment, modification or other alteration, the aggregate amount as then projected by the authority of (i) sales and compensating use taxes to be imposed pursuant to the authority of section twelve hundred ten of the tax law and paid to the city and (ii) all net collections for educational purposes to be set aside by the county pursuant to the authority of subdivision (a) of section twelve hundred sixty-two of the tax law and paid to the city's dependent school district during each of the authority's fiscal years following the effective date of such amendment, modification or other alteration shall be not less than two hundred percent of maximum annual debt service on authority bonds then outstanding. Notwithstanding anything to the contrary in this section, the county further agrees that it shall impose taxes pursuant to the authority of subdivision (a) of section twelve hundred ten of the tax law at the rate of no less than three percent.

2. The authority shall not include within any resolution, contract or agreement with holders of the bonds, notes or other obligations issued under this title any provision which provides that a default occurs as a result of the county exercising its right to amend, repeal, modify or otherwise alter such taxes, fees or appropriations or such net collections set aside for educational purposes. Nothing in this title shall be deemed to obligate the county to make any payments or impose

any taxes or set aside net collections for educational purposes pursuant to the authority of subdivision (a) of section twelve hundred sixty-two of the tax law; except that the county shall impose taxes pursuant to the authority of subdivision (a) of section twelve hundred ten of the tax law at the rate of no less than three percent.

§ 12. Section 3867 of the public authorities law, as added by chapter 122 of the laws of 2003, is amended to read as follows:

§ 3867. Agreement with the city. 1. The city hereby covenants and agrees with the holders of bonds, notes or other obligations issued by the authority pursuant to this title, that the city will not take actions which limit, alter or [in any way] impair the rights and remedies of such holders or the security for such bonds, notes or other obligations [while] until such bonds, notes or other obligations [are outstanding], together with the interest thereon and all costs and expenses in connection with any action or proceeding by or on behalf of such holders are fully paid and discharged. The authority is authorized to include this covenant and agreement of the city in any agreement with the holders of such bonds, notes or other obligations. Nothing contained in this title shall be deemed to restrict the right of the city to amend, modify, repeal or otherwise alter any local law, ordinance or resolution imposing or relating to taxes or fees, or appropriations relating thereto, including sales and compensating use taxes imposed pursuant to the authority of section twelve hundred ten of the tax law, so long as, after giving effect to such amendment, modification or other alteration, the aggregate amount as then projected by the authority of (i) sales and compensating use taxes to be imposed pursuant to the authority of section twelve hundred ten of the tax law and paid to the city and (ii) all net collections for educational purposes to be set aside by the county pursuant to the authority of subdivision (a) of section twelve hundred sixty-two of the tax law and paid to the city's dependent school district during each of the authority's fiscal years thereafter, shall be not less than two hundred percent of maximum annual debt service on authority bonds then outstanding. The city further covenants and agrees that (i) it will not take any action, including the imposition of sales and compensating use taxes preempting the county's taxes, to terminate or alter the terms of the agreement among the county, the city and the other cities in the county under subdivision (c) of section twelve hundred sixty-two of the tax law that would reduce or eliminate the amount of net collections that the county distributes or is to distribute to the city prior to June thirtieth, two thousand thirty-seven, without the authority's prior approval, and (ii) if the city imposes sales and compensating use taxes, it shall do so pursuant to subdivision (a) of section twelve hundred ten of the tax law at the maximum rate authorized by such section.

2. The authority shall not include within any resolution, contract or agreement with holders of the bonds, notes or other obligations issued under this title any provision which provides that a default occurs as a result of the city exercising its right to amend, repeal, modify or otherwise alter such taxes, fees or appropriations. Nothing in this title shall be deemed to obligate the city to make any payments or impose any taxes; except that, if the city imposes sales and compensating use taxes, it shall do so pursuant to subdivision (a) of section twelve hundred ten of the tax law at the maximum rate authorized by such section.

§ 13. Subdivisions (a) and (c) of section 1261 of the tax law, as amended by chapter 122 of the laws of 2003, are amended to read as follows:

(a) All taxes, penalties and interest imposed by cities, counties or school districts under the authority of section twelve hundred ten, twelve hundred eleven, twelve hundred twelve or twelve hundred twelve-A of this article, which are collected by the commissioner, shall be deposited daily with such responsible banks, banking houses or trust companies, as may be designated by the state comptroller, to the credit of the comptroller, in trust for the cities, counties or school districts imposing the tax or for the Nassau county interim finance authority or the Buffalo fiscal stability authority created by the public authorities law, to the extent that net collections from taxes imposed by Nassau county are payable to the Nassau county interim finance authority or to the extent that net collections from taxes imposed by Erie county <u>or by the city of Buffalo</u> are payable to the Buffalo fiscal stability authority, or for any public benefit corporation to which the tax may be payable pursuant to law. Such deposits and deposits received pursuant to subdivision (b) of section twelve hundred fifty-two of this article shall be kept in trust and separate and apart from all other monies in the possession of the comptroller. The comptroller shall require adequate security from all such depositories of such revenue collected by the commissioner, including the deposits received pursuant to subdivision (b) of section twelve hundred fifty-two of this article. Any amount payable to such authorities pursuant to the public authorities law shall, at the time it is otherwise payable to Nassau county [or]<u>,</u> Erie county <u>or the city of Buffalo</u>, respectively, as specified in this section, be paid instead to such respective authority. Any amount payable to a public benefit corporation pursuant to law shall, at the time it is otherwise payable to the taxing jurisdiction as specified in this section, be paid instead to such public benefit corporation.

(c) The comptroller, after reserving such refund fund and such costs shall, on or before the twelfth day of each month pay to the appropriate fiscal officers of the foregoing taxing jurisdictions the taxes, penalties and interest imposed by such jurisdictions under the authority of sections twelve hundred ten through twelve hundred twelve-A, collected by the commissioner pursuant to this article during the next preceding calendar month, provided, however, that the comptroller shall on or before the last day of June and December make a partial payment consisting of the collections made during and including the first twenty-five days of said months to said fiscal officers of the foregoing taxing jurisdictions. However, the taxes, penalties and interest from the additional one percent rate which the city of Yonkers is authorized to impose pursuant to section twelve hundred ten, after the comptroller has reserved such refund fund and such cost shall be paid to the special sales and compensating use tax fund for the city of Yonkers established by section ninety-two-f of the state finance law at the times set forth in the preceding sentence. However, the taxes, penalties and interest which the county of Nassau [or]<u>,</u> the county of Erie<u>, to the extent the county of Erie is contractually or statutorily obligated to allocate and apply or pay net collections to the city of Buffalo and to the extent that such county has set aside net collections for educational purposes attributable to the Buffalo school district, or the city of Buffalo</u> is authorized to impose pursuant to section twelve hundred ten of this article, other than such taxes in the amounts described, respectively,

in subdivisions one and two of section one thousand two hundred sixty-two-e of this [article] part, during the period that such section authorizes Nassau county to establish special or local assistance programs thereunder, together with any penalties and interest related thereto, and after the comptroller has reserved such refund fund and such costs, shall, commencing on the next payment date after the effective date of this sentence and of each month thereafter, until such date as the Nassau county interim finance authority shall have no obligations outstanding, or the Buffalo fiscal stability authority shall cease to exist, be paid by the comptroller to the Nassau county interim finance authority to be applied by the Nassau county interim finance authority, or to the Buffalo fiscal stability authority to be applied by the Buffalo fiscal stability authority, as the case may be, in the following order of priority: first pursuant to the Nassau county interim finance authority's contracts with bondholders or the Buffalo fiscal stability authority's contracts with bondholders, respectively, then to pay the Nassau county interim finance authority's operating expenses not otherwise provided for or the Buffalo fiscal stability authority's operating expenses not otherwise provided for, respectively, and then pursuant to the Nassau county interim finance authority's agreements with the county of Nassau, which agreements shall require the Nassau county interim finance authority to transfer such taxes, penalties and interest remaining after providing for contractual or other obligations of the Nassau county interim finance authority, and subject to any agreement between such authority and the county of Nassau, to the county of Nassau as frequently as practicable or pursuant to the Buffalo fiscal stability authority's agreements with the city of Buffalo, which agreements shall require the Buffalo fiscal stability authority to transfer such taxes, penalties and interest remaining after providing for contractual or other obligations of the Buffalo fiscal stability authority, and subject to any agreement between such authority and the city of Buffalo, to the city of Buffalo or the city of Buffalo school district, as the case may be, as frequently as practicable. During the period that the comptroller is required to make payments to the Nassau county interim finance authority described in the previous sentence, the county of Nassau shall have no right, title or interest in or to such taxes, penalties and interest required to be paid to the Nassau county interim finance authority, except as provided in such authority's agreements with the county of Nassau. During the period that the comptroller is required to make payments to the Buffalo fiscal stability authority described in the second previous sentence, the city of Buffalo and such school district shall have no right, title or interest in or to such taxes, penalties and interest required to be paid to the Buffalo fiscal stability authority, except as provided in such authority's agreements with the city of Buffalo. The amount so payable shall be certified to the comptroller by the commissioner or the commissioner's delegate, who shall not be held liable for any inaccuracy in such certificate. Provided, however, any such certification may be based on such information as may be available to the commissioner at the time such certificate must be made under this section and may be estimated on the basis of percentages or other indices calculated from distributions for prior periods. Where the amount so paid over to any city, county, school district or the special sales and compensating use tax fund for the city of Yonkers in any such distribution or to such authority is more or less than the amount then due to such city, county, school district or such fund or to such authority, the amount of the overpayment or underpayment shall be certi-

fied to the comptroller by the commissioner or the commissioner's delegate, who shall not be held liable for any inaccuracy in such certificate. The amount of the overpayment or underpayment shall be so certified to the comptroller as soon after the discovery of the overpayment or underpayment as reasonably possible and subsequent payments and distributions by the comptroller to such city, county, school district or the special sales and compensating use tax fund for the city of Yonkers or to such authority shall be adjusted by subtracting the amount of any such overpayment from or by adding the amount of any such underpayment to such number of subsequent payments and distributions as the comptroller and the commissioner shall consider reasonable in view of the amount of the overpayment or underpayment and all other facts and circumstances.

§ 14. The opening paragraph of paragraph a and paragraph b of section 57.00 of the local finance law, the opening paragraph of paragraph a as amended by chapter 685 of the laws of 2003 and paragraph b as amended by chapter 528 of the laws of 2002, are amended to read as follows:

Bonds shall be sold only at public sale and in accordance with the procedure set forth in this section and sections 58.00 and 59.00 of this title, except as otherwise provided in this paragraph. Bonds may be sold at private sale to the United States government or any agency or instrumentality thereof, the state of New York municipal bond bank agency, to any sinking fund or pension fund of the municipality, school district or district corporation selling such bonds, or, in the case of sales by the city of New York prior to July first, two thousand four, also to the municipal assistance corporation for the city of New York or to any other purchaser with the consent of the mayor and the comptroller of such city and approval of the state comptroller, or, in the case of sales by the county of Nassau prior to December thirty-first, two thousand seven, also to the Nassau county interim finance authority with the approval of the state comptroller, <u>or, in the case of sales by the city of Buffalo prior to June thirtieth, two thousand thirty-seven, also to the Buffalo fiscal stability authority with the approval of the state comptroller,</u> or, in the case of bonds or other obligations of a municipality issued for the construction of any sewage treatment works, sewage collecting system, storm water collecting system, water management facility, air pollution control facility or solid waste disposal facility, also to the New York state environmental facilities corporation, or, in the case of bonds or other obligations of a school district or a city acting on behalf of a city school district in a city having a population in excess of one hundred twenty-five thousand but less than one million inhabitants according to the latest federal census, issued to finance or refinance the cost of school district capital facilities or school district capital equipment, as defined in section sixteen hundred seventy-six of the public authorities law, also to the dormitory authority of the state of New York. Bonds of a river improvement or drainage district established by or under the supervision of the department of environmental conservation may be sold at private sale to the State of New York as investments for any funds of the state which by law may be invested, provided, however, that the rate of interest on any such bonds so sold shall be approved by the water power and control commission and the state comptroller. Bonds may also be sold at private sale as provided in section 63.00 of this title. No bonds shall be sold on option or on a deferred payment plan, except that options to purchase, effective for a period not exceeding one year, may be given:

b. Bonds shall be sold without limitation as to rate of interest and for a sum not less than the par value of, and the accrued interest on, such obligations except as authorized by this chapter, and may also be sold by municipalities at private sale to the state of New York municipal bond bank agency and to the New York state environmental facilities corporation, and in addition by the city of New York to the municipal assistance corporation for the city of New York, and by the county of Nassau to the Nassau county interim finance authority, and by the city of Buffalo to the Buffalo fiscal stability authority, at such rate or rates of interest as may be agreed upon by and between the issuing municipality and either of such agency or corporation, as the case may be. When sold at public sale, the rate of interest shall be determined in the manner provided in section 59.00 of this title. However, the agency or corporation prescribing the terms, form and contents of such bonds, subject to the foregoing provisions of this paragraph, may fix a maximum rate of interest at which such bonds shall be sold.

§ 15. If any section, part or provision of this act shall be adjudged unconstitutional or invalid or ineffective by any court of this state, any party in interest shall have a direct appeal as of right to the court of appeals of the state of New York, and such appeal shall have preference over all other causes. Service upon the adverse party of a notice of appeal shall stay the effect of the judgment or order appealed from pending the hearing and determination of the appeal.

§ 16. Separability. If any clause, sentence, paragraph, section or part of this act be adjudged by any court of competent jurisdiction to be unconstitutional, invalid, or ineffective, such judgment shall not affect, impair or invalidate the remainder thereof but shall be confined in its operation to the clause, sentence, paragraph, section or part thereof directly involved in the controversy in which such judgment shall have been rendered.

§ 17. This act shall take effect immediately.

APPROVED

MAY 2 4 2004