BUFFALO FISCAL STABILITY AUTHORITY

Review of Four-Year Financial Plan for Fiscal Years Ending 2005-2008

July 28, 2004

Buffalo Fiscal Stability Authority

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Executive Summary

BFSA Approves City of Buffalo Four-Year Financial Plan for Fiscal Years Ending 2005 – 2008

On June 9, 2004, the Buffalo Fiscal Stability Authority approved a Four-Year Financial Plan for the City of Buffalo and its covered organizations that addresses significant budget gaps through 2008.

The Plan contains a series of gap-closing actions for the City and Buffalo Public Schools, which face combined shortfalls ranging from $88 million in 2004-05 to $164 million by 2007-08. Through a combination of cost-cutting strategies, reengineering and an historic City/County inter-municipal agreement to operate City parks, the Plan bridges budget gaps annually in accordance with the Act that created the Fiscal Stability Authority.

The City and School District remain unable to close their entire budget gaps on their own at the present time, however. The Plan contains $50 million in BFSA financing assistance over the next three years, including nearly $31 million for the City alone.

The Fiscal Stability Authority believes the Financial Plan represents a significant effort to address the City's fiscal affairs. The City and School District have developed a strategy that is built on difficult decisions and reasoned action. All City entities must continue to explore every opportunity for cost containment, revenue enhancement, productivity improvement and functional restructuring to meet the needs of residents and businesses within the constraints of the current fiscal climate.

The City continues to face dramatic cost increases related to personnel and fringe benefits. Among the costly State mandates from which the City needs relief are dramatically escalating pension payments. While fringe benefit costs are largely out of the City's direct control, their impact on the overall budget is driven by the sheer size of the workforce – current and past. For example, baseline health insurance costs for City workers and retirees will jump by 66 percent from 2003-04 to 2007-08, while pension contributions soar by 316 percent. The growth in personnel-related costs accounts for virtually all of the increase in budget gaps over the course of the Four-Year Financial Plan. Since more than three-quarters of budget spending is on personnel, the City must intensify its efforts to right size its workforce to an affordable level. In the absence of such an effort, long-term fiscal stability will be difficult to attain.

All of the bargaining unit contracts in the City and the School District are now expired and up for negotiation, with the exception of the Police Benevolent Association. The School District needs to move expeditiously to bring its employees under a single health insurance carrier as the City recently did, yielding significant savings at no cost or benefit loss to any employee. It is also time to address those onerous provisions that have made past contracts so costly. The City and Schools can no longer afford unrealistic items like:

- No-layoff clauses that limit control over workforce size;

- Lavish fringe benefits that pay teachers significant lump-sum severance packages upon retirement;

- Costly custodial maintenance contracts that decentralize spending and accounting on a building-by-building basis, sacrificing economies of scale and accountability;

- Exorbitant health insurance plans that provide for items like cosmetic surgery; and

- No-outsourcing rules that restrict the possibility of privatizing services where it can save taxpayer money;

In the short term, the Financial Plan appears to be sound and built on low-risk actions. The out-years, however, contain risks that could jeopardize the integrity of the Plan and the City's long-term fiscal security. The need for close oversight by the Fiscal Stability Authority remains strong, to ensure that Financial Plan initiatives are implemented expeditiously and contingencies are developed in the event certain Plan components become unlikely.

In the Financial Plan submitted May 3, 2004, the City identifies budget gaps of $49.6 million in 2004-05; $55.8 million in 2005-06; $66.0 million in 2006-07; and $81.8 million in 2007-08. On top of these City shortfalls, the Buffalo Public Schools project gaps of $39.1 million in 2004-05; $53.9 million in 2005-06; $67.9 million in 2006-07; and $82.6 million in 2007-08. The Plan sets forth a series of actions designed to close these projected gaps to levels required by the State legislation that created the Fiscal Stability Authority.

The major actions outlined in the Plan are:

- An intermunicipal agreement with Erie County to manage all City parks, producing annual savings of $3.4 million in 2004-05 and increasing to $4.0 million by 2007-08.

- A new single-provider approach to employee health insurance. Along with shifting to an experience-based insurance rating formula, this restructuring will save $6.1 million in 2004-05, with annual savings growing to $8.5 million within three years.

- An increase in the property tax in 2004-05 to generate a recurring revenue stream of $3.6 million, with a second increase scheduled in 2007-08 to produce another $2.7 million in recurring revenue.

- Restructuring City retiree health insurance under a single carrier by 2005-06. Along with a citywide dependent care audit to remove ineligible enrollees, the Plan projects $4.5 million in 2005-06 savings, growing to $13.6 million by 2007-08.

- Eliminating forty fire department staff in 2005 to generate recurring savings of $2 to $3 million annually.

- Closing 10 school buildings between 2004 and 2008 to produce $17 million in recurring savings. These closings, along with certain academic program reductions, will enable an additional $14.7 million in staff reductions in 2004-05, growing to $23.1 million in 2007-08.

- The assumption of significant streams of new revenue. The Plan assumes $7 million for the City in additional sales tax revenue beginning in 2005-06, growing to $21 million by 2007-08. For the School District, the Plan assumes $6 million more in sales tax revenues in 2006-07, growing to $9 million in 2007-08. The Plan also assumes a significant increase in State aid to the Buffalo Schools, totaling $19 million in 2005-06 and growing to $23 million by 2007-08.

The major challenges identified in the Fiscal Stability Authority's report on the Financial Plan are:

- The highly speculative nature of several out-year revenue assumptions by the City and Buffalo Public Schools, particularly regarding State aid and additional sales tax.

- The School District drawing down its entire fund balance in 2004-05, especially in light of the City's cash flow weaknesses and the absence of a formal policy for building up a sufficient reserve.

- The viability of future property tax increases in light of historic trends that show a narrowing of the City's constitutional taxing margin.

- Sustaining the workforce at its current size, given the rapid escalation of personnel-related expenses.

In approving the Four-Year Financial Plan, the Fiscal Stability Authority reminds the City, Schools and other covered organizations that they will have to employ rigorous oversight in its implementation. The Financial Plan is simply a roadmap to long-term fiscal stability. The reasonableness of the proposals contained therein, and progress toward implementing them in a complete and timely fashion, will be monitored through the required quarterly reporting process.

Only through strict fiscal discipline and sustained progress toward implementing gap-closing measures can the Plan contribute to the City's long-term health and financial resurgence.

Introduction

The City of Buffalo submitted its Four-Year Financial Plan to the Buffalo Fiscal Stability Authority (BFSA) on May 3, 2004, in accordance with the BFSA Act. The Financial Plan included the City and its non-exempt covered organizations: the Buffalo Public Schools, Buffalo Urban Renewal Agency, Buffalo Municipal Housing Authority and Joint Schools Construction Board.

In conjunction with the new Financial Plan, BFSA also requested and received budgetary information for several entities currently designated as exempt covered organizations: the Buffalo Water Board, Buffalo Municipal Water Finance Authority and Buffalo Sewer Authority.

At its May 19, 2004 Board meeting, BFSA disapproved the City's initial submission, concluding that the Plan contained unacceptable levels of risk – particularly on the parks merger and health insurance initiatives. The City submitted a revised plan to BFSA on June 2nd, which included Common Council approval, a declaration of need for BFSA deficit financing assistance, and the Mayor's certification that the proposed budget is consistent with the Financial Plan and that operation within that budget is feasible.

This report details the Buffalo Fiscal Stability Authority's response to the Four-Year Financial Plan developed by the City of Buffalo and its covered organizations for the period covering fiscal years ending 2005 through 2008. After reviewing the Financial Plan and determining it to be balanced, BFSA formally voted to approve the Four-Year Financial Plan on June 9, 2004.

In addition to detailing BFSA's approval of the Financial Plan and declarations of need for deficit financing, this report identifies steps the City and covered organizations are required to take to ensure compliance with the Financial Plan and minimize out-year risks contained therein.

BFSA Approval and Certification of Revenue Estimates

Conditioned on the requirements and points noted in this report, BFSA approves the Four-Year Financial Plan of the City of Buffalo and its covered organizations. BFSA has determined that the Plan is complete and complies with the standards set forth in Section 3857, 2 (b) of the BFSA Act. BFSA also hereby certifies that it has agreed to and accepted the revenue estimates as required in Section 3857, 2 (d) of the Act. These revenue estimates are understood and accepted to be as follows:

Certified Revenues				
(in $ million)	**2004-05**	**2005-06**	**2006-07**	**2007-08**
City of Buffalo	$264.881	$264.255	$262.992	$262.747
Buffalo Public Schools	**$635.211**	**$631.104**	**$631.227**	**$631.356**
Buffalo Urban Renewal Agency	**$30.416**	**$29.485**	**$29.485**	**$29.485**
Buffalo Municipal Housing Authority	**$52.925**	**$51.997**	**$50.270**	**$48.979**
Total	**$983.433**	**$976.841**	**$973.974**	**$972.567**

Summary of Budget Gaps

The City and School District face significant gaps over the course of the next four year Financial Plan. The baseline gap in the City is projected at $49.6 million in FYE05; $55.8 million in FYE06; $66.0 million in FYE07; and $81.8 million in FYE08. The School District's baseline gap increases similarly, from $39.1 million in FYE05 to $53.9 million in FYE06; $67.9 million in FYE07; and $82.6 million in FYE08. Together, the City and School District face combined baseline gaps of $88.7 million in FYE05; $109.7 million in FYE06; $133.9 million in FYE07; and $164.4 million in FYE08. The aggregate combined four-year gap totals $496.7 million for the two entities.

The other covered organizations do not project budget gaps in their respective Financial Plans, though the Buffalo Urban Renewal Agency plan acknowledges an accumulated prior years' deficit of approximately $4 million.

Projected Gaps					
(in $ million)	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**Total**
City of Buffalo	$49.573	$55.773	$66.019	$81.755	$253.120
Buffalo Public Schools	$39.100	$53.882	$67.944	$82.606	$243.532
Buffalo Urban Renewal Agency*	--	--	--	--	--
Buffalo Municipal Housing Authority	--	--	--	--	--
Joint Schools Construction Board	--	--	--	--	--
Total	**$88.673**	**$109.655**	**$133.963**	**$164.361**	**$496.652**

* The Buffalo Urban Renewal Agency projects no operating deficit, but has identified an accumulated prior years' deficit of approximately $4 million

City of Buffalo

The City projects a baseline gap of $49.6 million in FYE05, growing to $81.8 million in FYE08, an increase of 65 percent. After implementing gap-closing actions that produce recurring savings, the City's Plan relies on $19.1 million in BFSA deficit borrowing in FYE05; $9.9 million in

FYE06; and $1.7 million in FYE07. As required by the BFSA Act, the Plan assumes structural balance (i.e., no BFSA deficit borrowing) in FYE08.

The Financial Plan identifies a series of gap-closing actions that achieve recurring savings for the City. As required by BFSA, the first year of the gap-closing strategy appears to be low risk, in the sense that the actions are all achievable and are not built on unreasonable assumptions. The Plan's out-years do contain some risk, however, and progress against those gap-closing actions must be carefully monitored. To the extent that the City cannot unilaterally implement them but must rely on labor negotiations, State legislation and/or action by the Common Council and County Legislature, the out-year gap-closing strategy is not guaranteed. For the highest risk initiative – additional sales tax revenues totaling $21 million by FYE08 – BFSA will require the City to develop a contingency plan should no progress be made on this issue by mid-FYE05.

*Baseline Budgetary Review**

Increasing baseline gaps in the City are the result of a declining revenue base and cost escalation, mainly for fringe benefits. Minus transfers, the City's baseline projections show total revenues falling 0.8 percent over the life of the Financial Plan, from $264.9 million in 2004-05 to $262.7 million in 2007-08. The primary contributors to this revenue decline are losses in City revenues (including general departmental fees) and Federal revenues (particularly grant monies). City revenues are projected at $0.3 million less in 2007-08 than in 2004-05, the result of decreases in assessment and general City revenues. Federal revenues fall by a more pronounced amount, dropping from $5.3 million in 2004-05 to $3.4 million in 2007-08. The end of the COPS Universal Hiring Grant in 2006 is the primary reason for the drop off.

Baseline Revenues: City of Buffalo

(in $ million)	2002-03 (Actual)	2003-04 (Proj)	2004-05	2005-06	2006-07	2007-08	% Chg, FYE 03-08
City Revenue	$162.925	$170.370	$164.988	$164.006	$164.834	$164.651	+ 1.1
County Revenue	$60.015	$60.438	$60.568	$60.568	$60.568	$60.568	+ 0.9
State Revenue	$143.504	$124.991	$126.113	$126.113	$126.113	$126.192	- 12.1
Federal Revenue	$5.395	$5.940	$5.349	$5.698	$3.599	$3.449	- 36.1
Other Revenue	$3.836	$19.278*	$3.571	$3.578	$3.586	$3.595	- 6.3
(Transfers)	($87.532)	($96.776)	($95.708)	($95.708)	($95.708)	($95.708)	--
TOTAL	**$288.143**	**$284.241**	**$264.881**	**$264.255**	**$262.992**	**$262.747**	**- 8.8**

* 2003-04 Other Revenue projection includes $7.811 million in BFSA deficit financing

* "Baseline" refers to budgeted revenue and expenditure levels *before* adjustments and gap-closing actions are accounted for. Baseline projections are used in the calculation of the gap.

Stagnating revenues represent only one side of the City's structural gap, however. The City faces substantial cost increases that are almost entirely attributable to fringe benefits. Over the life of the Plan, baseline fringe benefit costs grow from $107.3 million to nearly $144.5 million – an increase of almost 35 percent. Overall, baseline revenues drop 8.8 percent from the base year (FYE03) through FYE08. The nearly $20 million reduction in State revenues is the largest drop in actual dollars, reflecting the $20 million special spin-up aid the City received for the FYE03 budget. While revenues fall, baseline expenditures are increasing dramatically – up 27.7 percent from the base year to FYE08.

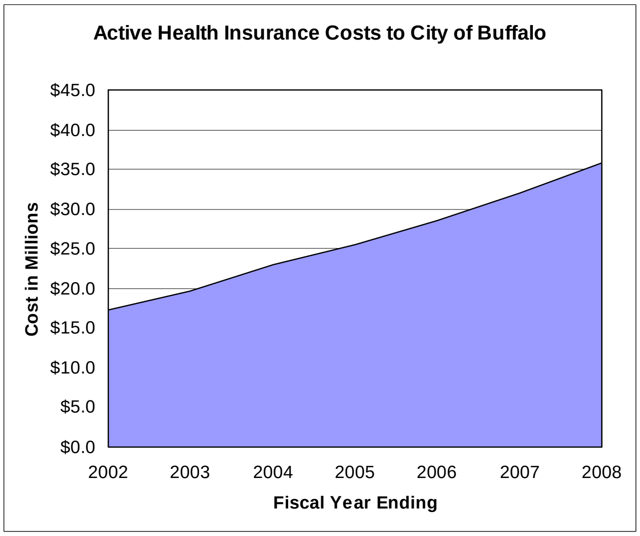
While the cost increases related to fringes are largely out of the City's direct control, the impact of fringes on the overall budget is a function of the size of the City's workforce and amount of the budget directly related to personnel costs. Approximately 83 percent, or $248 million, of the Mayor's proposed budget for 2004-05 goes to fund employee wages and benefits.

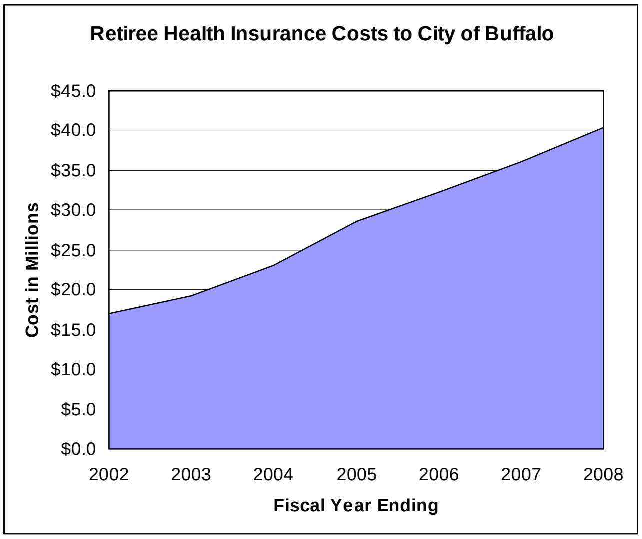
Baseline Expenditures: City of Buffalo

(in $ million)	2002-03 (Actual)	2003-04 (Proj)	2004-05	2005-06	2006-07	2007-08	% Chg, FYE 03-08
Departmental	$179.647	$172.755	$177.516	$170.940	$170.233	$170.533	- 5.1
Miscellaneous	$21.680	$24.232	$23.729	$24.473	$25.072	$26.306	+ 21.3
Debt Service	$4.457	$5.600	$5.922	$5.875	$3.192	$3.192	- 28.4
Fringe Benefits	$63.961	$78.231	$107.287	$118.740	$130.514	$144.471	+ 125.9
TOTAL	**$288.143**	**$284.241**	**$264.881**	**$264.255**	**$262.992**	**$262.747**	**+ 27.7**

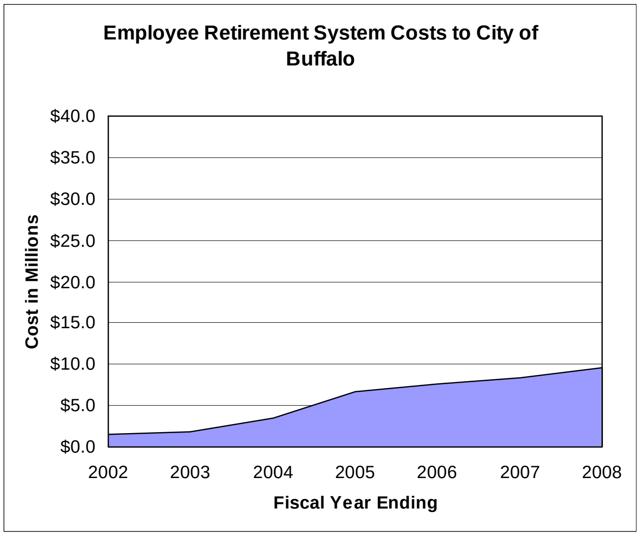
The most significant fringe benefit growth faced by the City is in the pension and health insurance categories. The baseline cost of retiree health insurance is projected to grow from $28.7 million in 2004-05 to $40.4 million in 2007-08, an increase of more than 40 percent and nearly $12 million. Retiree health insurance is only half of the equation, however. Coverage for active City employees is projected to jump from $25.5 million in 2004-05 to $35.8 million in 2007-08, an increase of more than $10 million.

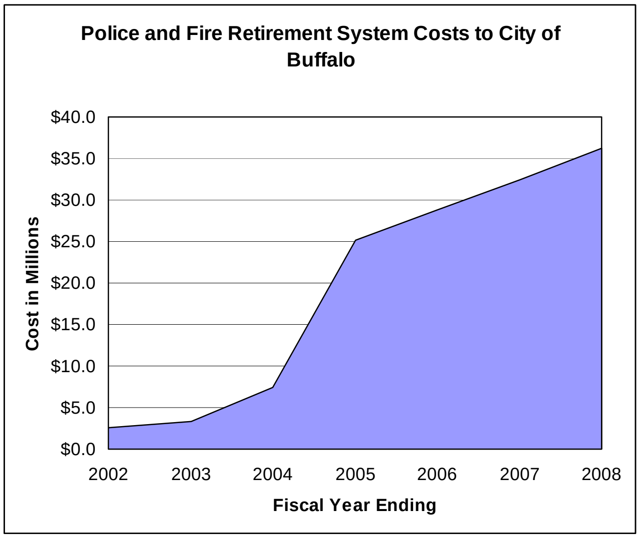
The graphs below show baseline health insurance costs *before the City's health insurance initiative*. Even with the savings provided by a single experience-rated insurance carrier, the City still faces increases in overall health insurance costs going forward. The insurance deal simply helps the City to recoup some of the increase it will experience in FYE05. The initiative does not eliminate that cost growth.





For pension, specifically NYS Employee Retirement (ERS) and NYS Police & Fire Retirement (PFRS), baseline costs to the City explode 43 percent during the four-year period, from a combined $31.9 million in 2004-05 to $45.8 million in 2007-08. PFRS increases most significantly from last fiscal year (2003-04) to FYE05, jumping from $7.5 million to $25.2 million.





PFRS costs not only increase more dramatically, but also are a much larger cost ($36 million in FYE08), due to both larger numbers of employees (approximately 1,600 in PFRS compared to 1,000 in ERS) and much higher average cost per employee. These costs are set by the State.

As a result of the significant increases in fringe benefit costs that outstrip the capacity of current revenue sources, the City faces increasing baseline gaps throughout the Financial Plan. The baseline shortfall grows from $49.6 million in 2004-05 to $81.8 million in 2007-08.

Baseline Gaps: City of Buffalo

(in $ million)	2004-05	2005-06	2006-07	2007-08
Revenues	$360.588	$359.962	$358.699	$358.455
(Revenues less Transfers)	$264.881	$264.255	$262.992	$262.747
Expenditures	$314.454	$320.028	$329.011	$344.502
Balance	**($49.573)**	**($55.773)**	**($66.019)**	**($81.755)**

It is important to note that one of the components driving the City's increased baseline costs – pension contributions – reflects the City's decision to budget the full cost up front rather than bond out those costs over a multi-year period, as a State Comptroller's policy enables the City to do over five years at 8 percent interest. By bonding its pension costs out, the City would have extended its payment term, but with the projected continuation of increasing pension costs on an annual basis, it would have sacrificed its long-term fiscal position for what would amount to very short-term cost relief. BFSA commends the City's decision to budget these costs up-front, and to deal with rising pension costs using the most prudent fiscal response. (Note: A portion of these costs has been financed with BFSA borrowing at an all-in true interest cost of 4.3 percent.)

"Above the Line" Modifications

Before it calculates the amount of the baseline gap that must be closed per the BFSA Act, the City can adjust the gap to account for items that impact the Financial Plan but are outside the confines of baseline revenues, expenditures or recurring gap closing actions. Referred to as "above the line" modifications, these items can effectively increase or decrease the size of the projected shortfall. The revised gap that emerges after these modifications to the baseline is the amount to which the minimum gap closure levels are applied.

The City's above the line modifications include drawing down $3.9 million in unreserved, undesignated fund balance from FYE03, as well as $2.9 million in projected savings from the wage freeze imposed by the Authority on April 21. The wage freeze savings include step increases; longevity increases; the 3.4 percent salary increase scheduled to go into effect for the police on July 1; and impacts to FICA and pension costs that would otherwise be borne by the City. The wage freeze had the additional impact of freeing up $2.0 million in reengineering resources. Other above the line modifications for FYE05 include:

– Drawing down $1.75 million in proceeds generated through the sale of delinquent tax liens to the Municipal Bond Bank Agency last year;

– Assuming additional sales tax revenues of $0.8 million through a 1.3 percent growth rate;

– Saving a combined $0.9 million through reductions in capital outlay, electricity, assessment and attrition; and

– Shifting fire personnel from investigation and prevention to fire suppression to save $0.2 million in overtime costs.

After accounting for the above the line modifications and the recurring values of gap-closing savings, the City's baseline gap and required closure amounts are revised downward as follows:

Revised Gaps: City of Buffalo

(in $ million)	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Baseline Gap	$49.573	$55.773	$66.019	$81.755
Revised Gap (after modifications)	$34.817	$26.181	$12.261	$16.382
Minimum Required Closure				
Percent	**45%**	**60%**	**80%**	**100%**
Amount	**$15.668**	**$15.709**	**$9.809**	**$16.382**

One modification not yet accounted for is the debt service payment against the $26.865 million ($7.811 million for FYE04 and $19.054 million for FYE05) deficit bonds being sold by BFSA for FYEs '04 and '05. The City will now face reduced revenues, as debt service amounts are withheld in the amount of approximately $300,000 per month. Since the FYE05 deficit funding has been front-ended instead of a March closing as originally budgeted, BFSA will require the City to include in its first quarter report an explanation of how this debt service payment will be funded.

The City has also determined to pay down BFSA's deficit bonds over ten years, with the first principal payment in FYE06. With the sale of those bonds in June 2004, the City's revenues will be reduced beginning in FYE05 by $3.5 million (the debt service amount). BFSA will be expecting the City to provide a Financial Plan modification to accommodate these reduced revenues.

Gap Closing Strategy

In accordance with the BFSA Act, the City is required to identify gap-closing actions that produce recurring savings of a prescribed level each year of the Plan. In 2004-05, the City is required to close 45 percent of the gap through its own actions, with the remaining 55 percent eligible for BFSA deficit borrowing. In 2005-06, the minimum closure requirement grows to 60 percent, and to 80 percent in 2006-07. In 2007-08, the City is required to close the entirety of its gap without BFSA deficit borrowing.

The Financial Plan identifies a series of gap-closing actions that achieve recurring savings for the City. Those initiatives are reviewed below.

Parks Initiative

The City's Plan includes an intermunicipal agreement with Erie County to operate City parks, which is projected to save the City $3.4 million in FYE05, growing to $4.0 million in FYE08. The initiative leases City parks to the County and transfers approximately 60 workers and operational responsibilities, in exchange for a $1.8 million City-to-County annual payment and approximately $750,000 in annual parks revenue.

Parks Initiative				
(in $ million)	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Savings & Recurring Value	$3.394	$3.704	$3.827	$3.963

Health Insurance Initiative

Another major initiative in the City's Financial Plan involves the shifting of eight of its nine unions to a single health insurance provider – Blue Cross/Blue Shield – and moving to an experience-based rating. Whereas the Mayor's Plan submitted on May 3rd only assumed savings of $2.8 million through the shift to an experience-based rating, subsequent union agreement enabled the City to increase its savings projections substantially through the consolidation of health coverage under a single carrier. The City conservatively estimates that this change will save $6.1 million in the coming fiscal year.

Health Insurance Initiative				
(in $ million)	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Savings & Recurring Value	$6.071	$6.800	$7.615	$8.529

The City's firefighter union, Local 282, has filed suit against the City alleging that the negative vote of its membership on the single carrier initiative means its bargaining unit cannot be included in the initiative. The

City, contending that a formal vote of the membership was not required, has moved forward on implementing its single carrier plan.

Property Tax Increase

The Financial Plan raises the homestead tax rate 4.0 percent and the non-homestead rate 3.5 percent. The increase is projected to generate $3.6 million in new revenue in FYE05, recurring at levels of $3.9, $2.7 and $2.7 million in the out years. In calculating the City's constitutional tax limit for 2004-05, the City has added approximately $4 million in exclusions. These exclusions raise the City's constitutional taxing limit by $4 million, but the net impact is effectively washed out by increased capital related costs, which also increase the margin. After the property tax increase, the City would still have a tax levy margin of $12.8 million, almost identical to 2003-04.

Property Tax Increase (1)				
(in $ million)	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Revenue	$3.622	$3.925	$2.675	$2.675

The Financial Plan also calls for a second property tax increase in FYE08, generating an additional $2.8 million to close the final year of the Plan. The likelihood of the City having sufficient room in its constitutional tax margin to levy this increase needs to be carefully monitored. Its tax ceiling has dropped $24 million, or 13 percent since FYE00. As the margin continues to contract – due to both declining property values and the need for additional tax increases – the ability of the City to tap this revenue source in 2007-08 could weaken.

Property Tax Increase (2)				
(in $ million)	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Revenue	$0	$0	$0	$2.766

Solid Waste Enterprise Fund

The City's Financial Plan eliminates $1.2 million in transferred resources to the Refuse and Recycling Enterprise Fund, and also shifts $0.4 million in labor costs from the General Fund into the fee-based Enterprise Fund. With heavy trash now a component of the garbage user fee, the City can confine its costs (and limit its General Fund subsidy) more effectively.

Solid Waste Enterprise Fund				
(in $ million)	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Savings & Recurring Value	$1.607	$1.719	$1.833	$2.021

Position Cuts

The Financial Plan calls for the elimination of 13 positions in FYE05. Whereas the Mayor's proposed budget had called for the elimination of 65 positions, savings from the single health carrier enabled the restoration of 60 positions. Of the 60, eight additional jobs will be cut through attrition. Accounting for unemployment costs and the growth in healthcare and pension costs that the City would otherwise be accountable for, the annual savings from this action grow to more than $1 million by the end of the Financial Plan.

Position Cuts				
(in $ million)	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Savings & Recurring Value	$0.499	$0.994	$1.213	$1.576

MBBA Tax Lien Securitization Program

The City will participate in the second year of a Municipal Bond Bank Agency program to secure revenues for delinquent property tax liens. In FYE04, the City sold $3 million in delinquent liens. Its Financial Plan estimates revenues of $250,000 in each of the next four fiscal years.

MBBA Tax Lien Securitization Program				
(in $ million)	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Revenue	$0.250	$0.250	$0.250	$0.250

Miscellaneous Initiatives

The City's Plan estimates savings of $320,000 each of the next four fiscal years as a function of several miscellaneous initiatives, including the cutting of summer youth programming, Marina funding, Buffalo Place's subsidy and reducing take-home cars.

Miscellaneous Initiatives				
(in $ million)	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Savings & Recurring Value	$0.320	$0.320	$0.320	$0.320

Sales Tax Sharing

The City's Financial Plan again assumes that it will receive additional sales tax revenues from Erie County beginning in FYE06. The Plan assumes $7 million in FYE06, followed by $14 million in FYE07 and $21 million in FYE08.

The assumption of these revenues into the Plan is high risk, given that it would require positive action by Erie County and the State Legislature. In renewing the "extra 1 percent" of the County's sales tax earlier this year, the State Legislature included language that endorsed the sharing of additional revenues with the City of Buffalo. This notwithstanding, the County has heretofore resisted the sharing of any portion of its fourth cent of sales tax. As a result, these revenues must be considered highly speculative at the current time.

Sales Tax Sharing				
(in $ million)	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Revenue	$0	$7.000	$14.000	$21.000

BFSA's approval of the City's Financial Plan **should not be taken as an endorsement of the sales tax sharing concept**. The Authority's responsibility is to ensure the City develops and maintains a reasonable Financial Plan. That Financial Plan will inevitably contain initiatives with varying degrees of risk, and such risk is not prohibited from being included in the Plan (with the exception of year one, which must be entirely "locked down" with low-risk initiatives).

High risk initiatives can be included in the Financial Plan, but that risk must be sufficiently discounted through safeguards that protect the City's ability to remain in balance. As the point at which the City is assuming speculative revenues such as sales tax gets closer without resolution of the issue, it threatens the integrity of the entire Financial Plan. In order to guard against the sales tax assumption making years two, three and four of the Plan wholly unreasonable, BFSA will require the following:

If no sales tax agreement is reached between the City and County by January 2005, the City's second quarter report to BFSA (due February 2005) must contain a formal Financial Plan Modification. That modification should detail a contingency plan the City will implement should the $7 million it is assuming into the Financial Plan for FYE06 not be provided.

Fire Initiative

As in its October Financial Plan, the City's new budgetary roadmap calls for further downsizing of the fire department in the out-years. In October 2005 (FYE06), the City plans to eliminate another 40 positions in the department – 32 firefighters, 6 lieutenants and 2 captains. The estimated savings are substantial, growing from $1.8 million in FYE06 to $3.2 million in FYE08.

The City's inability to implement its fire reengineering initiative in the first Financial Plan, however, along with manpower issues contributing to the escalation of overtime costs, casts some doubt on whether these savings are achievable. They will require close monitoring.

Fire Initiative

(in $ million)	2004-05	2005-06	2006-07	2007-08
Savings & Recurring Value	$0	$1.833	$3.100	$3.229

BFSA also notes the critical importance of the City identifying a new fire commissioner in the very near future. Having the position of permanent commissioner filled is vital to ensuring implementation of the City's long-term reengineering strategy for the department.

Fire IOD Attrition

As the City continues to struggle with high numbers of firefighters injured-on-duty (IOD) and the associated cost of $2.8 million in the current year, the Financial Plan assumes that the new strategy now in place to aggressively pursue disability retirements will generate savings. Once an employee has been on IOD status for 6 months, he or she becomes eligible for State disability retirement. At that point, the State and City would equally share in the cost of the firefighter's salary. Every eligible IOD that the City successfully transitions to disability retirement will therefore yield to the City a 50 to 75 percent savings off the individual's salary (depending on whether injuries are sustained accidentally or in the line of duty).

Through the work of a private consultant that has been engaged to facilitate IOD case management, the City is assuming 15 IODs will shift to disability retirement each year of the Financial Plan, generating more than $0.5 million in new savings, recurring at increasing amounts.

The City's historic inability to aggressively manage IOD numbers, and the relative newness of this strategy to shift the eligible injured to disability retirement, suggests that this initiative is not a guarantee and will bear close monitoring.

Fire IOD Attrition				
(in $ million)	2004-05	2005-06	2006-07	2007-08
Savings & Recurring Value	$0	$0.571	$1.174	$1.848

Additional Healthcare Savings

In addition to the shift to a single health insurance carrier, the City also projects savings from revisions to retiree health insurance and a dependent care audit in the out-years. By shifting all retirees to a single carrier (which will require agreement by retirees) and removing ineligible dependents from City-funded insurance coverage, the City estimates savings of $4.5 million in FYE06, growing to $13.5 million by FYE08.

It appears that retirees would have little reason to oppose the shift to a single carrier plan, particularly if it provides them with the same benefits and potentially greater portability – a key issue for retirees. Still, the amount of anticipated savings is significant and, to the extent that these savings require retirees' buy-in, they cannot yet be guaranteed and should be closely monitored, and revised as may be necessary.

Additional Healthcare Savings				
(in $ million)	2004-05	2005-06	2006-07	2007-08
Savings & Recurring Value	$0	$4.550	$7.550	$13.550

Functional Mergers with Erie County

The Plan calls for the consolidation of assessment, tax collection and purchasing functions with Erie County beginning in FYE06. That these items were contained in the original Financial Plan for FYE05, but are now pushed back a year, is a testament to the challenge of implementing them. No formal discussions have taken place yet between the City and County on merging these functions. As savings are assumed beginning in FYE06 (meaning that the consolidations would need to be in place on or around July 1, 2005), BFSA will closely monitor the likelihood of these mergers as the fiscal year progresses.

Functional Mergers with Erie County				
(in $ million)	2004-05	2005-06	2006-07	2007-08
Savings & Recurring Value	$0	$0.470	$0.554	$0.562

As it did with the successful parks consolidation, BFSA would hope to facilitate further collaborations between the City of Buffalo and Erie County to produce additional cost savings. Through its City-County Working Group, BFSA intends to provide a sustained forum for dialogue on these and other functional mergers.

Consolidate Police/Fire Dispatch with Erie County

Along with the assessment, tax collection and purchasing mergers, the City's Financial Plan also calls for consolidation of police and fire dispatch services with Erie County, beginning in FYE06. The initiative would generate $1.5 million in its first year, growing to $2.0 million by FYE08.

Consolidate Police/Fire Dispatch with Erie County				
(in $ million)	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Savings & Recurring Value	$0	$1.500	$1.911	$1.991

Reducing the Number of Crossing Guards

In conjunction with a decreasing number of school buildings, the Financial Plan calls for a survey of street corners to determine whether the number of crossing guards could be reduced by one-third. The City's Plan books $332,000 in annual savings from this initiative starting in FYE06. This initiative contains moderate risk, especially given that the City added 16 crossing guards in January on the basis that, according to the Administration, they were necessary for public safety.

Reducing the Number of Crossing Guards				
(in $ million)	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Savings & Recurring Value	$0	$0.332	$0.332	$0.332

Deficit Borrowing

The City's Plan assumes $30.7 million in deficit borrowing over three years. Costs associated with that borrowing are estimated to be $3.3 million in FYE05, $4.5 million in FYE06 and $4.7 million in FYE07 (depending on interest rates). The City's mid-year (February 2005) report will also need to include revisions to the gap to accommodate these costs and any other known changes to the out-year gaps. *

BFSA commends the City for opting to finance its deficit borrowing over a period of 10 years, rather than extending them longer.

Summary

The City's Financial Plan identifies a series of gap-closing actions that achieve recurring savings for the City. Together, those actions meet or exceed the statutorily required percentages of the gap in each year of the Plan, as follows:

Gap-Closing Strategy*

(in $ million)	2004-05	2005-06	2006-07	2007-08
Revised Gap	**($34.817)**	**($26.181)**	**($12.261)**	**($16.382)**
Parks Initiative	$3.394	-	-	-
Health Insurance Initiative	$6.071	-	-	-
Property Tax Increase (1)	$3.622	-	-	-
Property Tax Increase (2)	-	-	-	$2.766
Solid Waste Enterprise Fund	$1.607	-	-	-
Position Cuts	$0.499	-	-	-
MBBA Tax Lien Sale Program	$0.250	-	-	-
Miscellaneous Initiatives	$0.320	-	-	-
Sales Tax Sharing	-	$7.000	$7.000	$7.000
Fire Initiative	-	$1.833	-	-
Fire IOD Attrition	-	$0.571	$0.587	$0.616
Additional Healthcare Svgs	-	$4.550	$3.000	$6.000
Functional Mergers w/ County	-	$0.470	-	-
Reducing Crossing Guards	-	$0.332	-	-
Consolidate Police/Fire Dispatch	-	$1.500	-	-
Subtotal: New Gap-Closing Actions	**$15.763**	**$16.256**	**$10.587**	**$16.382**
Percent of Gap Closed by New Actions	45%	62%	86%	100%
BFSA Deficit Borrowing Assumed	$19.054	$9.925	$1.674	$0

* Values shown are only for new gap-closing actions, not recurring values, since only the new value can be applied to the required percentage closure.

* Since the decision to release the FYE05 deficit funding early in July to alleviate cash flow pressures was made after the budget was prepared, the entire impact of this financing is not reflected in the 2004-05 budget (but has been captured in the recent cash flow projections). First quarter updates from the City and School District will need to reflect the deficit financing and the corresponding debt service.

Buffalo Public Schools

The Buffalo Public Schools' (BPS) projected baseline gap grows from $39.1 million to $82.6 million through 2007-08. After implementing gap closing actions of $19.7 million in 2004-05 through four school closings, attrition and some program reductions, the School District assumes $19.4 million in BFSA deficit borrowing to close the remainder of its gap. The District identifies its reliance on BFSA deficit borrowing in FYE05 as "contingent," however, noting that any additional aid contained in a completed State budget may enable it to "modify the need for borrowing or rescind it altogether."

The Board of Education has included significant amounts of speculative revenues in the out-years of the Financial Plan, assuming recurring increases in State formula aid ($11 million between 2005-06 and 2007-08); a windfall from new aid distributions which may be triggered by studies and negotiations brought about as a result of the Campaign for Fiscal Equity decision relating to New York City schools ($14 million beginning in 2005-06); and increased sales tax revenues from Erie County ($6 million in 2006-07 and $9 million 2007-08).

The District's Plan relies on $9.3 million in undesignated fund balance in FYE05. BFSA has recommended that the School District begin to build a reserve, and will require a Financial Plan revision that provides for the retention of some of the fund balance as a reserve.

Actions taken by BPS as part of last October's Financial Plan have already closed a portion of the 2004-05 baseline shortfall. School closings contained in the initial Plan are projected to close the FYE05 gap by $5 million, with staff and program reductions projected to save another $14.7 million. Given the current baseline gap of $37.4 million, BPS' Plan therefore closes 50 percent of that gap, more than the 45 percent minimum required in the BFSA Act for FYE05.

Baseline Budgetary Review

Like the City itself, the District faces baseline gaps that are the result of stagnant revenues in the face of substantial cost increases. BPS' General Fund revenues are projected at $462.2 million in 2004-05, falling to $457.9 in each out-year of the Plan. The decline results primarily from a decreased reliance on fund balance in years 2, 3 and 4. Baseline State aid is projected at $339.5 million each year of the Plan. Outside of the

General Fund, grant funding (special projects and food service) is projected virtually flat through the Plan, with only a slight increase in State and Federal food service funds in each out year.

Baseline Revenues: Buffalo Public Schools							
(in $ million)	**2002-03 (Actual)**	**2003-04 (Proj)**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**% Chg, FYE 03-08**
General Fund	$447.302	$458.065	$462.196	$457.974	$457.974	$457.974	+ 2.4
Special Projects Grants	$135.747	$145.347	$152.114	$152.114	$152.114	$152.114	+ 12.1
Food Service Funds	$19.991	$20.901	$20.901	$21.017	$21.139	$21.269	+ 6.4
TOTAL	**$603.041**	**$624.313**	**$635.211**	**$631.104**	**$631.227**	**$631.356**	**+ 4.7**

This trend in the revenue base is outpaced by the trend of increases in General Fund expenses over the course of the Financial Plan. Increases in employee benefit categories, as well as a large jump in Charter School costs, drive the growth in BPS spending. Charter costs alone are projected to grow from $38 million in FYE05 to more than $58 million by FYE08, with employee benefits surging from $103 million in FYE05 to $116 million in FYE08.

Baseline Expenditures: Buffalo Public Schools*							
(in $ million)	**2002-03 (Actual)**	**2003-04 (Proj)**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**% Chg, FYE 03-08**
General Fund							
Employee Compensation	$222.413	$203.552	$187.636	$187.636	$187.636	$187.636	- 15.6
Employee Benefits	$76.246	$88.077	$103.321	$105.369	$110.885	$116.299	+ 52.5
Charter Schools	$15.482	$27.209	$38.123	$46.700	$52.304	$58.581	+ 278.4
Transportation	$26.458	$28.711	$30.248	$31.156	$32.090	$33.053	+ 24.9
Utilities	$11.286	$11.575	$11.701	$12.286	$12.900	$13.546	+ 20.0
Tuition	$22.927	$22.701	$24.290	$25.505	$26.780	$28.119	+ 22.6
Contracts – Custodial	$15.321	$15.229	$15.239	$15.087	$14.936	$14.786	- 3.5
Debt Service	$14.700	$28.677	$37.443	$34.539	$34.515	$34.341	+ 133.6
Other	$36.313	$32.420	$33.595	$33.878	$34.172	$34.519	- 4.9
Special Projects Grants	$135.747	$145.347	$152.114	$152.114	$152.114	$152.114	+ 12.1
Food Service	$19.432	$20.908	$20.901	$21.017	$21.139	$21.269	+ 9.5
TOTAL	**$596.326**	**$624.405**	**$654.611**	**$665.287**	**$679.471**	**$694.262**	**+ 16.4**
** Does not include additional $19.7 million in annual spending removed as part of the 2004-05 gap-closing strategy*							

Aside from Charter Schools, the primary General Fund cost centers pushing the District's increasing gap include health insurance for active employees (up $6.3 million, or 21 percent through 2007-08); health insurance for retirees (up $10.7 million, or 44 percent); other benefits, including termination pay (up $6.2 million, or 38 percent just since 2003-04); and transportation (up $2.8 million, or 9 percent through 2007-08).

Baseline Gaps: Buffalo Public Schools				
(in $ million)	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Revenues	$635.211	$631.104	$631.227	$631.356
Expenditures*	$654.611	$665.287	$679.471	$694.262
** Before $19.7mm in gap-closing actions already taken for FYE05*	($19.700)	($19.700)	($19.700)	($19.700)
Balance	**($39.100)**	**($53.883)**	**($67.944)**	**($82.606)**

The District therefore faces large increases in its baseline gaps throughout the Plan. The baseline shortfall increases from $39.1 million in 2004-05 to $82.6 million in 2007-08.

The School District makes no “above the line” modifications, with the exception of removing the recurring value of gap-closing actions from its baseline gap in each year. The District accounts for the $3.1 million from the BFSA-imposed wage freeze within its baseline numbers for employee compensation. After accounting for the recurring values of gap-closing savings, the School District’s gap and required closure amounts are revised downward as follows:

Revised Gaps: Buffalo Public Schools

(in $ million)	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Baseline Gap	$39.100	$53.883	$67.944	$82.606
Revised Gap (after modifications)	$39.100	$34.182	$14.062	$14.662
Minimum Required Closure				
Percent	**45%**	**60%**	**80%**	**100%**
Amount	**$17.595**	**$20.509**	**$11.250**	**$14.662**

Gap Closing Strategy

In accordance with the BFSA Act, the Buffalo Public Schools are required to identify gap-closing actions that produce recurring savings of 45 percent of the gap in FYE05, 60 percent in FYE06, 80 percent in FYE07 and 100 percent in FYE08.

The District’s FYE05 gap-closing plan depends on school closings, attrition and program reductions, while the out-year plan relies largely on speculative revenue increases from New York State.

While the District is already taking actions to close the required amount of the FY05 gap (i.e., closing schools, reducing staff), the out-year gap-closing plans are built heavily on speculative revenue increases that are well beyond the District’s ability to control. BFSA will continue to closely monitor State funding and will require the District to develop a contingency plan if/when it appears these speculative revenues will either not materialize or materialize later in the Financial Plan, thereby pushing the Plan out of balance.

All of the out-year gaps are assumed closed by a combination of increased State aid, additional sales tax revenues, more school closings, further staff reductions and technology upgrades. Increased State aid relied on in the Plan’s out-years includes $7 million in FYE06, with $2 million additional each of the two following years. Further, the FYE06 gap-closing plan relies on $14 million in monies related to the Campaign for Fiscal Equity (CFE) lawsuit.

BPS' FYE05 plan closes 53 percent of the gap through actions producing recurring savings, and assumes the remainder will be filled through BFSA deficit borrowing (in the absence of additional State aid). The out-year Plan calls for the following additional gap closing items:

Increased State Formula Aid

Formula aid is assumed to increase $7 million in FYE06, recurring at increased levels of $9 and $11 million in the out-years of the Plan. To comply with BFSA's requirement that speculative revenues not be contained in the first year of the Plan, the District has pushed off the assumption of additional State funding until year two (FYE06). Still, these revenues are speculative to the extent that the District does not control them and must rely on the State to make them available next year.

Increased State Formula Aid				
(in $ million)	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Revenue	$0	$7.000	$9.000	$11.000

Additional State Aid

The District Plan assumes $14 million in additional State aid above the Executive Budget beginning in FYE06, increasing to $16 million in FYE08. The District assumes the first $14 million would be a result of the Campaign for Fiscal Equity (CFE) court decision. Although all upstate dependent school districts claim that they are entitled to increased aid as a result of the Campaign for Fiscal Equity ruling, these revenues will continue to be speculative until the State adopts a formal funding plan pursuant to the CFE decision.

Additional State Aid				
(in $ million)	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Revenue	$0	$14.000	$14.000	$16.000

Additional County Sales Tax Revenues

The District's Plan assumes a new sales tax sharing arrangement with Erie County, effective FYE07. The arrangement would generate $6 million in FYE07, followed by $9 million FYE08. The assumption of these revenues into the Plan is high risk, since it would require positive action by Erie County and the State Legislature. In renewing the "extra 1 percent" of the County's sales tax earlier this year, the State Legislature included language that endorsed the sharing of additional revenues with the City of Buffalo. This notwithstanding, the inclusion of additional sales tax assumes actions by the County that have been heretofore resisted. As a result, these revenues (as with the City's assumption of increased sales tax) must be considered highly speculative at the current time.

Additional County Sales Tax Revenues				
(in $ million)	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Revenue	$0	$0	$6.000	$9.000

BFSA's approval **should not be taken as an endorsement of the sales tax sharing concept**. The Authority's responsibility is to ensure the District develops and maintains a reasonable Financial Plan. That Financial Plan will inevitably contain initiatives with varying degrees of risk, and such risk is not prohibited from being included in the Plan (with the exception of year one, which must be entirely "locked down" with low-risk initiatives).

Additional Miscellaneous Revenues

The District is assuming an increase in revenues such as indirect cost rates and reimbursements from Charter Schools, consistent with their historical trends. Again, this is a revenue beyond the direct control of the District and therefore must be considered speculative. This revenue stream will need to be closely monitored in FYE05 to ensure the historical trends that support the assumption are continuing.

Additional Miscellaneous Revenues				
(in $ million)	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Revenue	$0	$2.000	$2.000	$2.000

With the inclusion of additional sales tax, State aid and miscellaneous revenues, the School District's Financial Plan assumes a considerable amount of speculative out-year revenue. While the District may need these assumptions given the current four-year expenditure Plan, BFSA notes that the District must redouble its efforts to address areas of the budget where costs are higher than they need to be, such as health insurance.

School Closings

The speculative revenue increases over which the District has no control are balanced, to some degree, by spending reductions from school closings. The District Plan closes 50 percent of its FYE05 gap through school closings and related workforce/program reductions. The out-year Financial Plan calls for additional closings.

This action is considered low risk, since it is exclusively within the purview of the Board of Education, and the District showed in 2003-04 that it could effectively and expeditiously implement a school closing plan to balance the budget. The District projects $5.0 million in savings through the FYE05 closings, recurring at increased levels (due to additional closings) of $11, $15 and $17 million in the three out-years. In total, the District Plan calls for the four closures already implemented, plus three in FYE06, two in FYE07 and one in FYE08. Given precipitously declining enrollment (down 18 percent in the elementary levels from 2000 to 2003), this appears to be a reasonable step to control costs.

School Closings				
(in $ million)	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Savings & Recurring Value	$5.000	$11.000	$15.000	$17.000

Staff and Program Reductions

The BPS Plan assumes $14.7 million in FYE05 savings from staff and program reductions, recurring at increased levels of $17.9, $19.9 and $23.1 million in the out years. In FYE05, the Plan assumes the elimination (by attrition or layoff) of 194 teachers, 59 aides, 21 Local 264 workers, 13 white-collar workers, 6 Local 650 workers, 6 tradesmen and 7 administrators, for a total of 305 (after adding a Chief Financial Officer).

Staff and Program Reductions				
(in $ million)	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Savings & Recurring Value	$14.700	$17.882	$19.944	$23.106

New Academic Support Software System

The District plans to implement the “Actualizing Technologies for Local Academic Support” (ATLAS) system in FYE06, replacing its current contract with BOCES and generating savings of $1.4 million annually.

New Academic Support Software System				
(in $ million)	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Savings & Recurring Value	$0	$1.400	$1.400	$1.400

Automated Substitute Teacher Calling System

The District plans to implement a fully automated substitute call-in system by FYE06, generating $0.6 million in recurring savings.

Automated Substitute Teacher Calling System				
(in $ million)	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Savings & Recurring Value	$0	$0.600	$0.600	$0.600

Shift to Maximum Class Sizes

BPS expects that by FYE08, it will generate additional savings through a shift to larger class sizes.

Shift to Maximum Class Sizes				
(in $ million)	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Savings & Recurring Value	$0	$0	$0	$2.500

Summary

BFSA will closely monitor the likelihood of the District realizing the speculative revenues on which budgetary balance in the out-years is based. In FYE05, additional State aid would only reduce BFSA deficit bonding already assumed into the Plan. Therefore, any additional State aid that materializes before or during FYE05 will impact the amount of borrowing BFSA is required to do for the District. BPS has already taken actions to close more than the minimum required for FYE05.

The out-years are a different story, however. When speculative revenues are removed from the Plan, District actions only close 33 percent of the revised gap in FYE06, 43 percent in FYE07, and 52 percent in FYE08 – each year falling well short of the levels required by the BFSA Act. Should these speculative revenues not materialize, the School District's Plan will be significantly out of balance and not eligible for BFSA deficit borrowing absent a Plan modification. In that case, the District would be required to close its entire gap on its own.

Gap-Closing Strategy*				
(in $ million)	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Revised Gap	**($39.100)**	**($34.182)**	**($14.062)**	**($14.662)**
Increased State Formula Aid	-	$7.000	$2.000	$2.000
Additional State Aid	-	$14.000	-	$2.000
Additional County Sales Tax Revenues	-	-	$6.000	$3.000
Additional Miscellaneous Revenues	-	$2.000	-	-
School Closings	$5.000	$6.000	$4.000	$2.000
Staff and Program Reductions	$14.700	$3.182	$2.062	$3.162
Academic Support Software System	-	$1.400	-	-
Automated Substitute Calling System	-	$0.600	-	-
Shift to Maximum Class Sizes	-	-	-	$2.500
Subtotal: New Gap-Closing Actions	**$19.700**	**$34.182**	**$14.062**	**$14.662**
Percent of Gap Closed by New Actions	50%	100%	100%	100%
BFSA Deficit Borrowing Assumed	$19.400	$0	$0	$0

* Values shown are only for new gap-closing actions, not recurring values, since only the new value can be applied to the required percentage closure.

Other Covered Organizations

In its Four-Year Financial Plan, the City was also required to include all non-exempt covered organizations: the Buffalo Municipal Housing Authority, the Buffalo Urban Renewal Agency and the Joint Schools Construction Board. Those entities' Financial Plans are summarized in this section.

Buffalo Urban Renewal Agency (BURA)

The Buffalo Urban Renewal Agency continues to project it will finish FYE04 in balance, based on actions it has taken to reduce its operating budget by $1 million, or 22 percent, to $3.3 million. This budget reduction was implemented primarily to balance the effect of HUD's suspension of the HOME grant. However, there still exists a prior years' cumulative deficit, related to planning and administrative overspending over a period of years. Preliminary estimates indicate that the cumulative all-funds prior years' deficit exceeds $4 million. Final valuation of the cumulative gap is expected to be completed by June 30, 2004, and will be reported to BFSA at that time.

The prior years' shortfall is assumed closed from FYE05 to FYE07 through full implementation of the Agency's Financial Plan.

BFSA considers the Urban Renewal Agency's Financial Plan approvable as presented.

Closing the Prior Years' Deficit

Under a Federal Department of Housing and Urban Development-negotiated agreement, BURA plans to reduce its administrative cost cap amounts over the term of the Financial Plan. HUD will permit recovered balances to be applied to pay down the prior years' accumulated gap.

Budgetary Review

Revenues: BURA revenues consist largely of Federal grants and related income, such as income from subrecipients. For FYE05, all-funds revenues are projected to be $30.4 million (which includes $4.6 million in revenues for operating costs), an increase of $1.5 million, or 5 percent, over the FYE04 budget. HUD has agreed to restore the HOME grant, subsequent to BURA hiring two Certified Public Accountants. Grant totals are anticipated to level off at $29.5 million throughout the remainder of the Financial Plan.

The 2004-05 increase is from three funding sources:

1. The American Dream Downpayment Initiative, through which HUD has authorized an FYE04 amount of $180,862 to be allocated with the full-year FYE05 amount of $213,422, for a total of $394,284. Thereafter, the annual amount will be $213,422.

2. The Economic Development Initiative grant will supply $750,000 for principal payments for the Homeownership Zone (HOZO) project.

3. Program income from subrecipients is projected to increase by $800,000, or 40 percent.

BURA also anticipates $200,000 in proceeds for FYE05 from loan recoveries and selling off assets, increasing to $400,000 for the remaining years of the Financial Plan.

BURA Revenues

(in $ million)	'04 Budget	'04 Forecast	2005	2006	2007	2008
Grants & Related Income						
CDBG	$19.923	$18.932	$19.551	$19.551	$19.551	$19.551
HOME	$5.272	$2.782	$5.270	$5.270	$5.270	$5.270
American Dream Initiative	-	-	$0.394	$0.213	$0.213	$0.213
ESG	$0.747	$1.169	$0.729	$0.729	$0.729	$0.729
HOPWA	$0.473	$0.430	$0.472	$0.472	$0.472	$0.472
Economic Development Grant	-	-	$0.750	-	-	-
CDBG Program Income	$2.000	$2.092	$2.800	$2.600	$2.600	$2.600
Loan recovery/asset sales	-	-	$0.200	$0.400	$0.400	$0.400
HOME Program Income	$0.500	$0.252	$0.250	$0.250	$0.250	$0.250
Total	**$28.915**	**$25.657**	**$30.416**	**$29.485**	**$29.485**	**$29.485**

Expenditures: BURA's Annual Action Plan, required by the Federal government from all grant recipients as a prerequisite for annual funding, has been sent to HUD for review. The plan addresses the City's priority projects: economic development, neighborhood revitalization, housing development and public services. BURA recently received HUD's approval of the Action Plan, certifying both revenues (grants) and expenditures, pending the hiring of two Certified Public Accountants.

BURA Expenditures						
(in $ million)	**'04 Budget**	**'04 Forecast**	**2005**	**2006**	**2007**	**2008**
Grant Expenditures						
CDBG Public Svc Costs	$2.988	$3.611	$2.537	$2.346	$2.346	$2.346
Section 108 Loan Repayments	$5.186	$5.293	$4.332	$4.302	$3.254	$3.121
CDBG Payroll to Reimb to City	$3.094	$2.767	$1.725	$1.725	$1.725	$1.725
Indirect Cost Reimb to City	$0.535	$0.535	$0.193	$0.193	$0.193	$0.193
CDBG Program Costs	$6.451	$5.732	$10.487	$9.959	$11.006	$10.068
HOME CHDO Set Aside	$0.791	$0.510	$0.790	$0.790	$0.790	$0.790
HOME Program Costs	$4.454	$2.384	$4.177	$4.177	$4.177	$4.177
American Dream Initiative	-	-	$0.394	$0.213	$0.213	$0.213
Emergency Shelter Prog Costs	$0.710	$1.123	$0.692	$0.692	$0.692	$0.692
HOPWA Program Costs	$0.459	$0.427	$0.458	$0.458	$0.458	$0.458
Subtotal	**$24.668**	**$22.382**	**$25.787**	**$24.857**	**$24.857**	**$24.372**
Admin & Planning Costs						
CDBG Admin Costs	$3.668	$3.086	$4.026	$4.026	$4.026	$4.510
HOME Admin Costs	$0.527	$0.140	$0.552	$0.552	$0.552	$0.552
Emergency Shelter Admin	$0.037	$0.045	$0.036	$0.036	$0.036	$0.036
HOPWA Admin Costs	$0.014	$0.003	$0.014	$0.014	$0.014	$0.014
Subtotal	**$4.247**	**$3.275**	**$4.628**	**$4.628**	**$4.628**	**$5.113**
Total	**$28.915**	**$25.657**	**$30.456**	**$29.485**	**$29.485**	**$29.485**

Staffing Levels

For the term of the Financial Plan, BURA's budget provides for 70 positions totaling costs of $2.9 million. Five positions are currently vacant: senior accountant, grants monitor/accountant, housing director, construction analyst and community planner. Other positions are distributed through the organization as follows:

BURA Staffing		
	Positions	**Total Salary**
Administration & Finance	19	$757,661
Planning	13	$630,086
Clean & Seal Crew	10	$309,304
Inspections	6	$195,388
Executive	6	$295,110
Housing	4	$180,419
Citizens Services	3	$133,621
Public Works	2	$109,637
Community Services	2	$88,999
Other	2	$47,084
Real Estate	2	$109,636
Environmental Affairs	1	$57,878
TOTAL	**70**	**$2,914,823**

In BURA's May 3rd Financial Plan submission, health insurance costs were projected to remain flat over the term of the Plan. Health insurance costs were subsequently revised, and now reflect an expected increase of 12 percent annually, to coincide with the more reasonable growth rate used by the City.

Additionally, BFSA determined that pension costs were not adequately provided for in the initial submission. The revised Financial Plan now includes pension costs for FYE05 calculated in accordance with the State Comptroller's final rates for the NYS Employees' Retirement System. Furthermore, BURA does not expect to utilize the amortization provisions available for the amount due December 31, 2004, but rather will pay the full amount when due.

Buffalo Municipal Housing Authority (BMHA)

At BFSA's request, this year BMHA presented a budget and Four-Year Financial Plan that included all grant monies received by the Housing Authority. The only component excluded was BMHA's New York State portfolio, which now consists solely of Marine Drive and Kensington Heights. The Housing Authority submitted information for these properties separate from its Financial Plan, and that information is reviewed below.

Summary

BMHA presented a balanced budget for FYE05 and a four-year plan that relies minimally on the use of its prior years' fund balance. Revenues, which rely heavily on grants from the Federal Department of Housing and Urban Development, carry some degree of risk as HUD's approvals have yet to be received and funding has been reduced over the past few years. In the Plan's out-years, the degree of risk increases due to HUD's ongoing reevaluation of the formulae used to calculate operating subsidies and other grants. BMHA has calculated its HUD operating subsidy at 95 percent of the current formula for the purposes of developing its Financial Plan, though any major deviation from this number will necessitate a Plan modification.

BMHA is also currently developing a policy for the use of its reserve that, at the end of the third quarter of FYE04, was $8.4 million or approximately 25 percent of the operating budget

BFSA considers the Housing Authority's Financial Plan approvable as presented. The capital plan (prepared separately) will be submitted and reviewed again for BFSA approval when HUD's allocation for 2005 is adopted.

Revenues

HUD is currently reviewing a nationwide housing study (the Harvard Study), which evaluates the current calculation formulae for Federal housing subsidies. It is anticipated that the current method of calculation will be changed and that the changes will begin to be phased in some time in 2006. Given that there is no reliable information at this time on how the changes will impact BMHA, the budget and Financial Plan are built on the old model and will need to be revised as the impact is determined. (Only the HUD operating subsidy will be impacted by the new method of calculation.)

Total BMHA revenues are projected at $52.9 million in FYE05. This represents a significant increase over the $30.5 million budgeted in FYE04, due almost entirely to the fact that grants are now counted in that revenue base.

BMHA Revenues

(in $ million)	'04 Budget	'04 Forecast	2005	2006	2007	2008
Operating Revenues						
Dwelling Rental Income	$9.301	$8.665	$9.507	$9.602	$9.697	$9.794
Non-Dwelling Rental Income	$0.621	$0.564	$0.473	$0.476	$0.478	$0.480
HUD Operating Subsidy	$17.797	$18.133	$18.852	$19.574	$19.903	$20.237
Percent Change			*3.97%*	*3.83%*	*1.68%*	*1.68%*
Capital Budget Admin Allowance	$1.541	$1.541	$1.542	$1.542	$1.542	$1.542
Transitional Funding	-	-	$0.626	-	-	-
Interest Income	$0.100	$0.100	$0.125	$0.125	$0.125	$0.125
Use of Reserves	$1.122	-	$0.400	$0.257	$0.058	-
Total Operating Revenues	**$30.482**	**$29.003**	**$31.525**	**$31.576**	**$31.803**	**$32.178**
Percent Change			*8.70%*	*0.16%*	*0.72%*	*1.18%*
HUD Capital Grant	-	-	$8.233	$8.233	$8.233	$8.233
Replacement Housing Grant	-	-	$2.800	$2.701	$1.000	-
HOPE VI Grant	-	-	$1.146	$0.454	-	-
HOME Grant	-	-	$0.967	$0.483	$0.675	-
Section 8 – Comer	-	-	$5.439	$5.871	$5.877	$5.882
Section 8 – 002 Program	-	-	$2.240	$2.242	$2.245	$2.247
Other Grants	-	-	$0.575	$0.437	$0.437	$0.439
Total Revenues			**$52.925**	**$51.997**	**$50.270**	**$48.979**
Percent Change				*-1.75%*	*-3.32%*	*-2.57%*

Dwelling Rental Income: This increase is attributed to three factors. First, two properties were transferred during 2003 from the State to the Federal portfolio. Their inclusion for the full year in 2005 means the related monies are now added to the total. Second, occupancy is on the rise, increasing to 92 percent as of April 2004, from 90 percent in December 2003. Third, HUD requires a 3 percent increase in rental income (not included in 2005). BMHA has assumed only a 1 percent increase in rental income in the out-years, due to local market conditions.

HUD Operating Subsidy: This figure is calculated at 95 percent of the HUD formula. The 3.9 percent increase in 2005 and a small portion of the increase in 2006 is attributable to the increased subsidy covering a full year of new units in the Federal portfolio. The out-years reflect the same unit count, as well as HUD's inflation factor of 1.017. The operating subsidy includes $1.2 million, which is a pass-through to the management firm for Lakeview Homes and is offset by an expense in BMHA's budget.

Capital Budget Administrative Allowance: This represents HUD's allowance for indirect administrative outlays out of the capital grant. HUD allows up to 20 percent to be used for administrative purposes, but BMHA is only using 15.8 percent of the 2004 capital grant. The Financial Plan leaves this revenue line flat. (This number does not include direct administrative costs connected to the capital grant, which are included as capital grant expenditures).

Transitional Funding: This subsidy ($676,000 in 2005) has yet to be approved and has a higher degree of risk. It relates to the phase down of units at Lakeview and, because of HUD-caused delays in the revitalization grant for the complex, the timeframe for transitional funding has expired. BMHA has appealed to HUD, arguing that the delay was not of BMHA's making and that there are still 61 units to be completed.

HUD Capital Grant: Congress appropriated gross capital grant monies in its most recent budget, but HUD will not confirm specific amounts to recipients until later this year. As a result, BMHA will request a budget modification if the actual grant varies widely from the budgeted level. Without having the exact amount, BMHA has budgeted the same number it received in 2004.

Section 8 Grants: The Bush Administration has issued directives that have the effect of reducing the dollar value of Section 8 vouchers, while HUD has restored some funds by using monies from other sources. BMHA is currently still being funded at prior year levels, although it expects some impact over the next few months. It is expected that the major impact will be on landlords, as tenants will have less money for rent. (Note: BMHA recently received 172 new vouchers and $64,000 in additional administrative funds that go along with them.)

Grant Revenues (All Others): A number of grants booked for 2005 have not yet been approved. BMHA indicates that grants tend to be approved for three years at a time, and the applications for renewal have not yet been processed. Where renewals have a high degree of risk, BMHA has not included them in the budget.

Budget Gap and the Use of Reserves: BMHA anticipates using $400,000 of its $8.4 million reserve in 2005, followed by $257,000 in 2006 and $58,000 in 2007. It does not anticipate needing to tap the reserve in 2008.

Overall revenues appear reasonable for 2005, although HUD could still reduce the major operating subsidy as it has done in prior years. BMHA anticipates that its revenues will be cut by 5 percent due to formula changes, and has reflected this in the budget. Revenues are also projected to decrease in the out-years as specific grants expire.

The major threat to BMHA operations is the anticipated change in the calculation of Federal subsidies, anticipated in early 2005. BMHA will provide for BFSA review and analysis more details on this threat as they become available over the coming months.

Expenditures

Salaries: (Does not include salaries/benefits for staff paid out of specific grants, which have been included in a separate line). This is the first time BMHA has provided grant staffing cost information to BFSA. Therefore, comparisons will begin on quarterly actuals going forward.

Salary Expenditures

(in $ million)	'04 Budget	'04 Forecast	2005	2006	2007	2008
Operating Budget Salaries						
Administrative	$2.253	$2.227	$2.410	$2.410	$2.410	$2.410
Tenant Services	$1.558	$1.570	$1.595	$1.595	$1.595	$1.595
Labor – Boilers	$0.917	$1.062	$0.949	$0.949	$0.949	$0.949
Maintenance	$4.959	$4.601	$5.177	$5.177	$5.177	$5.177
Protective Services	$2.001	$1.693	$1.550	$1.449	$1.449	$1.449
Subtotal	$11.688	$11.153	$11.681	$11.580	$11.580	$11.580
Salaries as % of Revenues	38.3%	38.5%	37.1%	36.7%	36.4%	36.0%
Other Grants Salaries	-	-	$2.200	$2.200	$2.200	$2.200
Total Salaries	**-**	**-**	**$13.881**	**$13.780**	**$13.780**	**$13.780**
Benefits	-	-	$5.333	$5.287	$5.287	$5.287
Total Employee Related	**-**	**-**	**$19.214**	**$19.067**	**$19.067**	**$19.067**
Benefits as % of Salary	-	-	38.4%	38.4%	38.4%	38.4%
Employee Related as % of Revenues	-	-	60.9%	60.4%	60.0%	59.3%

Increases for 2005 in various salary lines represent the recent filling of vacancies that had been carried for several months of 2004. Among the newly hired staff is a Certified Public Accountant that will assist BMHA in meeting its reporting requirements to BFSA.

BMHA paid approximately $0.9 million in pension costs in 2004, and has budgeted $1.5 million for 2005. Subsequent to developing its budget, BMHA re-estimated that its overall cost for this item is understated by approximately $0.5 million. However, it anticipates that savings generated through a shift to a single health insurance carrier will offset this cost. BMHA continues negotiations with its labor unions to secure a single provider health insurance agreement, and will adjust its budget and Financial Plan once an agreement is reached and savings are quantified.

Workforce Levels						
(in $ million)	**'04 Budget**	**'04 Forecast**	**2005**	**2006**	**2007**	**2008**
Original Financial Plan	334	-	329	329	329	329
New Financial Plan	349	349	345	340	340	340
Change Over Original Plan	**+ 15**		**+ 16**	**+ 11**	**+ 11**	**+ 11**

Budgeted staffing levels are considerably higher in the new Financial Plan than they were in the Plan approved by BFSA in October 2003. However, salary lines in the previous plan appear to not reflect the anticipated decrease in headcount. As a result, actual results through March 2004 show better-than-budget numbers. Overall, staffing has decreased from 419 in 1998 to the current level of 349. This level has remained flat since 2002.

BMHA has five collective bargaining units. Three have contracts that expire in June 2004, while another (Housing Police) expires in June 2005. The final union – Local 17 Engineers – has been without a contract since June 2002. BMHA's Financial Plan zeroes out all salary, step and longevity increases.

The citywide wage freeze imposed by BFSA on April 21, 2004 generates savings of $1.2 million across the four-year BMHA plan ($0.177 million in FYE05, increasing to $0.372 million in FYE08).

Utilities: Utility costs have been lower than expected for 2004. Improvements in efficiency in certain projects, along with lower usage, will result in over $1 million in savings in the current year. As the budget and Financial Plan assume more normal winter usage going forward, consumption expenditures have been increased to more closely resemble the 2004 budgeted amount. Water and sewer charges show substantial increases due to growth in rates and a change in the calculation of sewer charges.

Utility Costs						
(in $ million)	**'04 Budget**	**'04 Forecast**	**2005**	**2006**	**2007**	**2008**
Water and Sewer Usage	$0.365	$0.485	$0.983	$1.000	$1.017	$1.034
Electricity	$2.627	$2.616	$2.598	$2.642	$2.688	$2.733
Gas and Fuel	$3.665	$2.386	$3.451	$3.509	$3.569	$3.630
Sewer Rent	$0.586	$0.539	$0.434	$0.442	$0.449	$0.457
Total	**$7.243**	**$6.026**	**$7.466**	**$7.593**	**$7.723**	**$7.854**
% of Operating Revenues	23.8%	20.8%	23.7%	24.1%	24.3%	24.4%

Maintenance: Regular maintenance expenditures are budgeted constant, except for the fact that all maintenance costs on Lakeview are now a direct pass-through HUD subsidy to the firm managing the complex. The BMHA plan would require very little reliance on cash reserves, but it has decided to invest in extraordinary maintenance. These expenditures are anticipated to total $350,000 in 2005 and $400,000 in the out-years, both of which will require the use of some reserves.

State Portfolio

The New York State portfolio now consists exclusively of Marine Drive and Kensington Heights, along with a general cash reserve. HLM Holdings LLC has been designated as developer of Kensington Heights, and will assume all carrying costs of the property effective January 1, 2005. In the interim, HLM is putting together a development and financing plan for demolition of the structures – which have been vacant for several years – and the construction of an extended care facility and a medical and general office building.

The State portfolio's general cash reserve currently stands at $900,166. The expenditure forecast for FYE05 is $578,663, which should be sufficient to carry BMHA through disposition of the Kensington Heights property.

A one-year management agreement (with a two-year option) with the interim management company (a Hutchens-Kissling partnership) has been sent for approval to the NYS Division of Housing and Community Renewal, and will come to BFSA for full review and approval thereafter. When the complex reverted back to BMHA in January, the Housing Authority discovered considerable deferred maintenance and many required upgrades which, if all done at once, could consume the entire cash reserve. (Note: In addition to the State portfolio reserve, there is a $4 million cash reserve dedicated to Marine Drive).

Only the most urgent projects are being carried out through BMHA's operating budget, as the remainder of the Marine Drive reserve monies are currently tied up in the severance pay court case and under the control of NYS. The complex is self-sustaining on an ongoing basis, so its operations are not otherwise a drain on BMHA's budget.

Joint Schools Construction Board (JSCB)

This Four-Year Financial Plan is the first to include the Joint Schools Construction Board, as JSCB's first phase of financing was carved out of BFSA oversight in the legislation creating the Authority.

Summary of Phase I Projects

Phase I includes nine schools and two district-wide projects, and was financed through a $197.1 million issuance by the Erie County Industrial Development Agency (Series 2003 premium bonds). The bonds are payable only from payments under a lease-purchase contract by the School District and, in the event of default, by an intercept of State aid to the District.

Actual funds to be spent on Phase I totaled $172.3 million – project funds of $164.5 million, plus issuance costs of $6.6 million, plus interest earned during the construction period of $1.3 million. The remainder of the funding went to capitalized interest during the construction period and to the debt service reserve fund.

Results as of March 31, 2004

As of the end of March, Phase I was 43.6 percent complete, having spent $75.2 million. Individual projects were at various stages of completion, from 68-69 percent on the two district-wide projects to 22 percent for School 74. Most of the schools were between 34 and 51 percent complete. Due to delays in the starting date, most of the school projects will be finished between September and December 2004, with School 74 not completed until June 2005.

The District made its first $5.8 million JSCB payment in March 2004. According to the Governor's Executive Budget, however, the District may not receive reimbursement for those costs in the near term. According to the budget proposal, neither the $5.8 million nor the $14.7 million due in FYE05 would be paid to the District by the State until July

2005. If this payment schedule is adhered to in the adopted budget, the District would be short $5.8 million in cash in FYE04.

Phase I Projects						
(in $ million)						
School	19	31	38	66	67	74
Cost	$12.412	$15.455	$10.368	$10.535	$12.949	$16.055
Spent by end April 2004	$4.912	$5.389	$3.522	$5.454	$4.588	$3.496
% Completed	39.5%	34.9%	34.0%	51.8%	35.4%	21.8%
Expected Completion	Nov 2004	Sept 2004	Sept 2004	Sept 2004	Nov 2004	May 2005
(in $ million)						
School	80	302	307	District-wide	Energy Perf	**Totals**
Cost	$14.576	$22.006	$24.307	$23.774	$9.915	**$172.352**
Spent by end April 2004	$4.962	$8.706	$11.113	$16.325	$6.743	**$75.210**
% Completed	34.0%	39.6%	45.7%	68.7%	68.0%	**43.6%**
Expected Completion	Dec 2004	Dec 2004	Dec 2004	June 2004	Dec 2004	

The contract with project manager Ciminelli Construction, covered under a Master Construction Agreement, is a bonded, fixed-price contract and there is no expectation of cost overruns. JSCB will report to BFSA quarterly on the status of all projects.

Phase I of JSCB is exempt from Wick's Law, but not from prevailing wage rates.

Phase II Projects

Plans for Phase II include 13 schools and four district-wide projects, estimated to cost $250 million. Before Phase II is approved, JSCB is required to update its strategic plan relative to enrollment projections. An RFP is currently being prepared for this task, and District officials anticipate they will have results in September 2004.

The launching of Phase II also requires enabling legislation from the State Legislature, which the State legislature passed in late June and, as of this writing, is awaiting the Governor's signature. Schematic designs and State Education Department approval are anticipated by mid-October, and the financing by mid-November. Construction for Phase II is currently anticipated to begin in January 2005, with completion set for September 2006.

BFSA will be working with JSCB to review strategy, particularly as it relates to strategic planning and enrollment projections, as well as financing plans.

Quarterly Monitoring

In approving this Four-Year Financial Plan, BFSA notes that the City, School District and other covered organizations will have to employ rigorous oversight in its implementation. To this end, quarterly reports are required of each entity by the BFSA Act. These reports must include current cash flows that reflect actual receipts and disbursements through the end of the respective quarter, along with projections for the remainder of the fiscal year; a summary of budget data by department and major category for all funds; and workforce levels by major bargaining unit and/or department. Financial and personnel projections that vary from budgeted amounts must be fully explained.

In addition to providing quarterly financial information, these reports must include a status update on the implementation of all gap-closing actions contained in the approved Financial Plan. Where BFSA determines that the implementation of gap-closing actions is not proceeding in accordance with the Financial Plan, a Financial Plan modification will be required.

The Four-Year Financial Plan is simply a roadmap to long-term fiscal stability. The reasonableness of the proposals contained therein, and progress toward implementing them in a complete and timely fashion, will be monitored through these quarterly reports, and revisited annually through the financial planning process prescribed by the BFSA Act. Only through strict fiscal discipline and sustained progress toward implementing gap-closing measures can these proposals contribute to the City's long-term health. The Authority considers this Four-Year Financial Plan an acceptable and achievable plan to that end.