BUFFALO FISCAL STABILITY AUTHORITY

Review of Approved Four-Year Financial Plan for Fiscal Years Ending 2006-2009

October 1, 2005

Buffalo Fiscal Stability Authority

DIRECTORS

Brian J. Lipke, Chairman

Alair Townsend, Vice Chair

Richard Tobe, Secretary

H. Carl McCall, Treasurer

John J. Faso

Rev. Richard Stenhouse

Robert G. Wilmers

Joel A. Giambra, Erie County Executive

Anthony M. Masiello, Mayor, City of Buffalo

STAFF

Dorothy A. Johnson, MS
Executive Director

Darryl McPherson, Esq.
Chief Counsel

Bertha Mitchell, MBA
Chief Financial Officer

Joseph V. Stefko, Ph.D.
Deputy Director

Robert M. Tocker, MA
Senior Analyst

Melinda Mulawka, MPA
Associate Analyst

Nathan B. Miller
Executive Assistant and Office Manager

Market Arcade Building, 617 Main Street, Suite 400
Buffalo, New York 14203
Phone: (716) 853-0907
Fax: (716) 853-9052
Web: www.bfsa.state.ny.us
Email: info@bfsa.state.ny.us

Table of Contents

Executive Summary

On June 8, 2005, the Buffalo Fiscal Stability Authority (BFSA) approved a new Financial Plan for the City of Buffalo and its covered organizations. The plan contains a strategy for addressing structural budget gaps in the City, School District and Buffalo Municipal Housing Authority (BMHA) through 2008-09, as well as an accumulated deficit from prior years in the Buffalo Urban Renewal Agency (BURA). It is the third such plan approved since BFSA was created by New York State in July 2003.

The Financial Plan addresses combined baseline budget gaps ranging from $54 million in '05-06 to $188 million in '08-09.

This report details BFSA's response to the Financial Plan, which BFSA formally voted to approve on June 8, 2005. The report summarizes the plan's major components and assesses the risks to the Financial Plan in the context of the fiscal challenges still facing Buffalo.

The Financial Plan addresses combined baseline budgetary shortfalls ranging from $54 million in 2005-06 to $188 million in 2008-09. Through a combination of workforce reductions, initiatives related to active and retiree health insurance, additional school closings and the infusion of new State aid, the plan closes projected budget gaps each year as required by the State legislation that created BFSA.

The new four-year strategy does not rely upon any additional deficit financing assistance through BFSA, unlike the Financial Plans approved in the first two years of Buffalo's control period. The City had previously required $7.8 million and $19.1 million in deficit borrowing to close its 2003-04 and 2004-05 budgets, respectively. However, the plan does rely upon significant savings associated with the wage freeze imposed on the City and its covered organizations by BFSA in April 2004 in each of the out years.

In the City, where budget gaps are driven primarily by fringe benefits and utility costs, annual shortfalls are projected to be closed through increases in State aid, the elimination of vacant positions, attrition in the Police and Fire Departments and negotiated adjustments to the retiree health insurance package.

In the School District, where burgeoning gaps are driven on the expenditure side largely by fringe benefits, budget shortfalls are projected to be closed through continued downsizing of the District's facilities portfolio, potentially massive reductions in staff, the implementation of a single health insurance carrier program and out-year State aid increases.

In BURA, efforts to eradicate a prior-years' accumulated deficit of more than $3 million continue. The strategy includes aggressive recovery of unused grant funds from prior program years, as well as generating savings through negotiated "cost caps" with the federal Department of Housing and Urban Development.

At BMHA, significant cuts are required to balance the current and out-year budgets. In 2005-06 alone, expenditures are reduced by 11 percent through layoffs, the elimination of the Authority's Housing Police force, and reductions in maintenance supplies and contracts.

Introduction

The City of Buffalo submitted its new four-year Financial Plan to the Buffalo Fiscal Stability Authority (BFSA) on May 2, 2005, in compliance with the State legislation that created BFSA. The Financial Plan includes the City of Buffalo and its non-exempt covered organizations:

- Buffalo Public Schools (BPS),
- Buffalo Urban Renewal Agency (BURA),
- Buffalo Municipal Housing Authority (BMHA), and
- Joint Schools Construction Board (JSCB).

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. Summaries of budgetary information for these entities are presented in the appendix to this report.

Buffalo has made progress…

The new Financial Plan benefits from some of the progress made in the last several years by the City and its covered organizations. Workforce levels have contracted significantly since 2003. The shift to a single health insurance carrier has generated substantial recurring savings for the City and BMHA, and is expected to produce savings for the School District beginning in 2005-06. Gap-closing actions such as the City-County parks merger, the downsizing of the School District's facilities portfolio, and property tax increases have permanently reduced some costs and supplemented revenues.

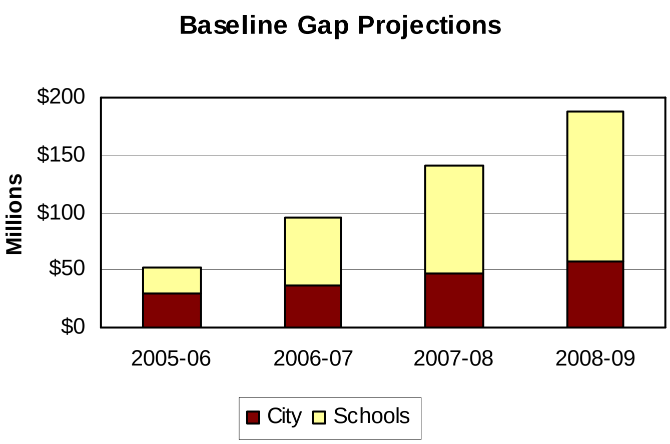
Buffalo has made progress in BFSA's first two years, but significant fiscal challenges remain.

BFSA has also provided assistance in its first two years. The Authority has helped to develop stronger fiscal monitoring mechanisms and enhanced long-term budgetary planning processes. It provided $27 million in deficit financing for the City in its first two years, enabling avoidance of draconian cuts in services and personnel. BFSA has also saved the City on its borrowing costs, using its higher credit rating to complete cash flow and capital borrowings in 2004-05 and refinancing $47 million in City debt. Savings on the cash flow borrowings and the refinancing alone are estimated at $4 million. Finally, the City and covered organizations have also realized short-term budgetary relief through the wage freeze imposed by BFSA in April 2004, without which their Financial Plans would have been out of balance. Savings from the wage freeze have been estimated to be approximately $100 million (from 2002-03 through the end of the Financial Plan), including the steps, increments and longevity payments already frozen *and* an assumed rate of annual increases through the Financial Plan period that mirrors historical trends in the City.

…but significant fiscal challenges remain

Despite this progress, substantial threats remain to Buffalo's long-term fiscal stability:

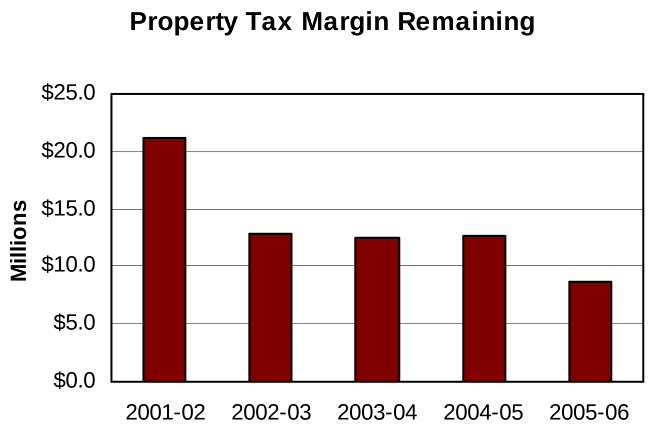
Structural budget gaps continue to grow at alarming rates, particularly in the School District. Those gaps require aggressive actions on an annual basis just to ensure short-term balance. While the Financial Plan contains strategies for solving those annual gaps, the strategies are laden with risk – both in terms of their actual fiscal impact and in terms of their effect on the quality of the product offered to residents, businesses and public school students in the City of Buffalo.



While recent cost-cutting initiatives and additional State aid have had a positive impact on the City's finances, the fiscal crisis remains. Even with additional actions contained in the new Financial Plan, budgetary balance remains precarious. Aggressive local actions notwithstanding, the Financial Plan of the City and School District is balanced in large part through additional State aid totaling nearly $30 million in 2005-06.

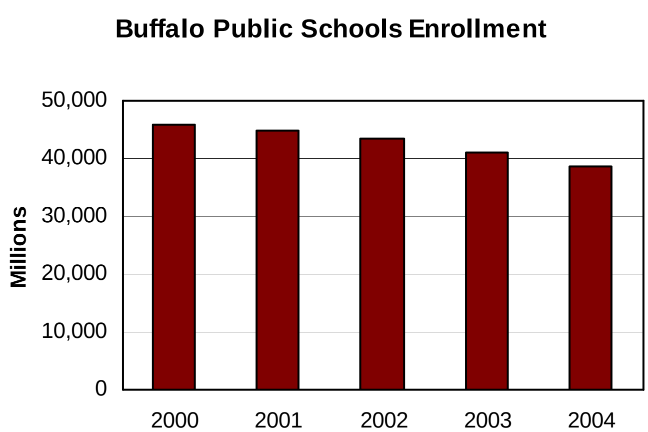
Fund balance levels remain insufficient to cover unanticipated shocks to the budget and Financial Plan, and to cover cash flow shortfalls, despite recent progress to address reserves. For the fiscal year ending June 30, 2004, the City's unreserved, undesignated fund balance was only 3 percent of its annual spending. By contrast, the Office of the State Comptroller recommends that municipalities maintain an unreserved, undesignated fund balance of 8 to 10 percent. Similarly, the School District's fund balance level is barely 1 percent of its annual spending. At the same time, BMHA has depleted its fund balance to within $1 million of the minimum level permitted by the federal Department of Housing and Urban Development before it is designated a "troubled agency."

The City's property tax margin in 2004-05 was precariously low, and shrinks further in the 2005-06 budget. Despite recent positive news regarding growth in the City's assessed value and the concomitant tax rate reduction, the City's property tax levy remains the same as in 2004-05. Only $8.7 million remains in Buffalo's constitutional tax margin. Not only does this represent a mere 1 percent of the City and School District's combined billion-dollar budget, but the reduction in margin continues a very negative trend in the one revenue source the City can unilaterally control.



The School District remains unable to balance its annual budget shortfalls without further cuts to its teaching workforce and potentially increasing class sizes. Both actions are particularly harmful to the District's mission, especially given the comparatively low levels of student achievement relative to peer districts and State standards.

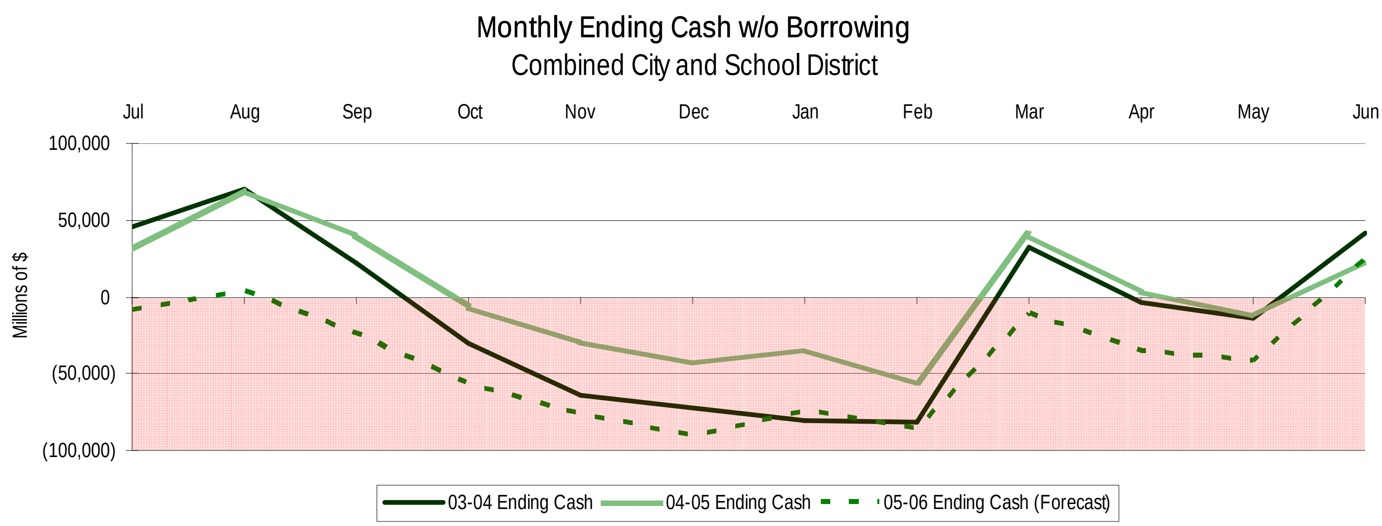
The City continues to lack sufficient resources in its budget to fund certain operating expenditures, such as annual tree trimming and demolitions. Instead, it is forced into costly borrowing to cover these expenses. The negative impact is three-fold: it drives up debt costs, defers other essential capital improvements, and does not provide an asset to back the extended terms of the borrowing. This is one reason why the City ended the 2003-04 fiscal year with negative unrestricted assets of $19 million. At the same time, the School District closed 2003-04 with negative unrestricted assets of $87 million. The lower the City's net assets become, the worse its ability is to meet its ongoing obligations to citizens and creditors.



School District enrollment continues to drop at a dramatic pace, reflecting in part disaffection with the quality of the educational product. District enrollment fell 16 percent from October 2000 through October 2004, from 45,902 to 38,479. The loss was particularly acute in the early grades: grades 1 through 4 fell by more than 24 percent each.

Other covered organizations continue to face acute fiscal challenges as well. The Buffalo Municipal Housing Authority has eliminated its public safety department due to funding reductions, and the Buffalo Urban Renewal Agency continues its efforts to address a prior-years' accumulated deficit.

The City's annual cash flow needs continue to be significant, forcing costly short-term borrowing just to meet operating expenses, including payroll. The City's low reserve levels, and the movement of much it its State Aid to the end of the fiscal year, renders Buffalo "cash poor" for much of its fiscal year. As a result, it continues to need high levels of annual cash flow borrowing to meet expenses. Over the past several years, cash flow borrowings have ranged from $90 to $120 million.



The City also faces at least two substantial exposures regarding its labor costs. First, a recent binding arbitration decision has granted raises to firefighters of 2.1 percent and 3.4 percent for 2002-03 and 2003-04. Though subject to the BFSA-imposed wage freeze, the total cost of those wage increases and the related pension impact would exceed $20 million through the current Financial Plan. Second, there remain multiple lawsuits pending against the wage freeze which, under a worst-case scenario, would expose the City to significant amounts in back pay and additional recurring expenses in future years.

Status of the wage freeze

The City, School District and other covered organizations have assumed continuation of the wage freeze to achieve budgetary balance in the new

Financial Plan. The freeze was initially imposed by BFSA on April 21, 2004, pursuant to Resolution 04-35. Given the major underlying structural problems, as well as the continuance of budgets that are not balanced except through annual, aggressive (and in some cases, risky) budgetary actions, BFSA considers the freeze essential to the adoption and maintenance of a balanced Financial Plan.

The wage freeze is a "control period" power under the BFSA Act. Pursuant to the Act, the control period shall remain in place until that point at which "for each of the three immediately preceding fiscal years, the City has adopted and adhered to budgets covering all expenditures, other than capital items, the results of which did not show a deficit, without the use of any authority assistance" (§3851,1). The newly adopted Financial Plan projects that the wage freeze – which BFSA determines to be a significant form of authority assistance – will be essential to maintaining balance through at least the completion of the 2008-09 fiscal year. As such, the Financial Plan would maintain the control period until *at least* after completion of the 2011-12 fiscal year.

Summary of baseline budget gaps

The City and School District continue to face large and growing structural budget deficits, driven by the inability of normal growth in revenues to keep pace with normal growth in costs. The baseline budget gaps, which reveal the extent of the "structural deficit," grow from a combined $54 million in 2005-06 to $188 million by 2008-09. These baseline figures are necessarily conservative: they assume revenues will be no greater than the previous year, while the status quo is maintained in terms of existing levels of programs, services and workforce. In short, the baseline shows the size of the problem *in the absence of* new cost-saving and/or revenue-enhancing actions.

The City and School District continue to face large and growing structural budget deficits.

The structural gaps in the Financial Plan are significant. The City's baseline deficits continue to be driven by normal growth in cost categories such as employee benefits (especially health insurance), utilities (especially natural gas and electricity) and supplies (especially fuel and postage). Even with the major strides taken through the shift of many City workers to a single insurance carrier in 2004-05, the trend in the City's health costs remains on an upward slope. Despite the City continuing to reduce the size of its workforce *and* implement the single insurance carrier, health costs remain a primary concern for long-term fiscal stability.

Baseline health insurance costs for the School District continue to grow at a rapid rate. The District's initiative to utilize a single health insurance provider – which continues to be challenged in arbitration by the District's unions – would defray part of that baseline cost increase, but health costs would still increase year over year.* Finally, anticipated growth in teacher pension costs will increase the District's burden by more than $3 million in 2005-06 and $9 million by 2008-09 without additional staff reductions.

The growth in charter school enrollment also has an impact on the District's budget. The number of charter school students is projected at 5,436 across 15 schools in 2005-06, up from 314 students and 2 schools in 2000-01. This growth reflects both the District's lagging educational achievement and, related, parents' desire to seek out other academic opportunities within the City. Over time, the impact of charter growth on the District should be relatively balanced on both sides of the ledger. First, the District is required by New York State's charter schools law to "pass through" State operating aid to charters on a per student basis. In 2005-06, the per student payment is approximately $9,000. When considered on a per pupil basis, the District retains additional aid – approximately $3,000 to $4,000 – with which it continues to provide a series of services to charter students (e.g. textbooks, transportation, special education, etc.).** Second, charter schools also represent a significant opportunity for the District to reduce costs over time. As more students opt out of District schools in favor of charters, the District is afforded the opportunity to consolidate classrooms, downsize its facility portfolio, reduce its utility and maintenance costs, and reduce the size of its workforce.

The District has begun to address its cost structure in response to the opportunity presented by enrollment shift to the charters. However, it has had to implement additional "forced" cuts – beyond those related strictly to enrollment change – as a function of other cost drivers in the system (primarily employee benefits). In order to balance burgeoning employee benefit costs, major workforce reductions have taken place. According to District figures, from 2000-01 through 2004-05, the District eliminated one teacher for every seven students that left Buffalo schools; increased class size targets from 24 to 28; cut attendance teachers by 64 percent; cut guidance services by 34 percent; and cut library teachers by 23 percent. It has also closed (or designated as interim "swing schools" during reconstruction) twenty-five facilities and terminated six leased spaces since 2003. These cuts reflect not only cost-reduction opportunities presented by charters, but exorbitant employee benefit costs that continue to drive the District's budget gaps.

---

* At present, the District has been relieved of an injunction that would have prohibited it from implementing the single insurer program. In August 2005, BFSA approved a District budget modification that incorporates savings from the single insurance carrier plan while protecting against the liability posed by an ongoing arbitration regarding insurance. The modification is detailed later in the report.

** State Aid is not technically provided to Districts on a per pupil basis. In fact, Buffalo's aid has grown on a regular basis in recent years in spite of a continuous loss of students to charter schools, private schools and other districts.

Projected Baseline Budget Gaps (in millions of $)

	2005-06	2006-07	2007-08	2008-09
City	$29.4	$36.4	$46.6	$56.7
School District	$21.6	$59.3	$94.2	$131.2
BMHA	$3.4	$1.5	$0.8	$0.0
BURA^	$0.0	$0.0	$0.0	$0.0
Total	**$54.4**	**$97.2**	**$141.6**	**$187.9**

^ BURA is carrying a $3.3 million prior-year accumulated shortfall

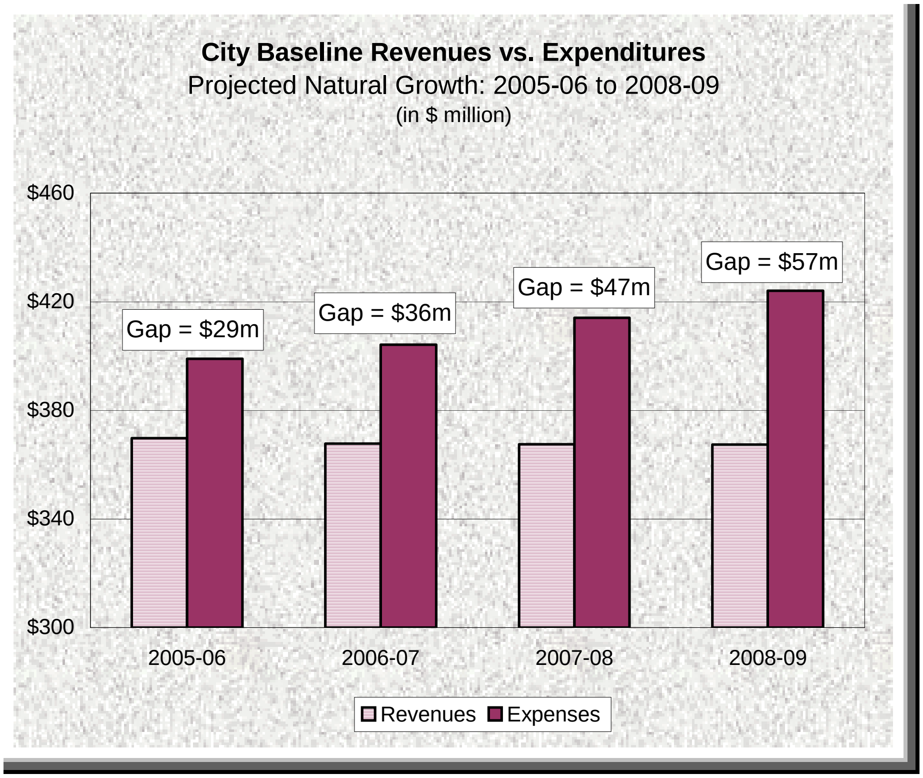
The Financial Plan proposes to close annual budget gaps through the introduction of new actions with recurring value each year. However some initiatives to close budget shortfalls in the City, School District and BMHA contain substantial risk. For the City, the risk is associated with the assumption of savings from actions that would require negotiation, sustained rates of attrition and increased State Aid. For the School District, the risk is associated with speculative increases in State Aid and further staff reductions that may jeopardize efforts to improve academic performance levels that continue to lag peer districts and State standards. For BMHA, the risk is associated with optimistic assumptions related to stemming utility cost growth, and prior years' depletion of reserves to levels considered barely adequate by the federal Department of Housing and Urban Development.

The Financial Plan proposes to close annual budget gaps through new actions with recurring value.

City of Buffalo

The Baseline Budget Gap

In projecting its baseline budget gap, the City uses the assumptions discussed in the previous section. Revenues are projected no higher than the previous year, unless there is sufficient justification to do otherwise. Similarly, expenditures are projected no lower than the previous year, unless there is sufficient justification to do otherwise. The resulting baseline gap is the size of the structural budgetary shortfall *before* the City takes any actions to close it.



The City's baseline budget gap continues to grow in the new Financial Plan, despite significant strides taken to rein in costs in prior fiscal years. Fringe benefits and utilities represent the largest cost-drivers. Overall, the baseline gap grows from a projected $29.4 million in 2005-06 to $56.7 million in 2008-09. This growth occurs *despite* the continued freeze on employee salaries, a significant reduction in funded positions in recent years, and the slow-down in re-filling funded positions as a result of the BFSA-imposed hiring freeze coupled with the City's aggressive position management. These facts mandate a continued streamlining of City workforce levels and reengineering of the way business is done.

90% of the City's spending increases are directly attributable to employee fringe benefits, especially health insurance.

Approximately 90 percent of year-over-year baseline expenditure increases are directly attributable to employee fringe benefits, especially health insurance. Over the life of the Financial Plan, the City's health insurance costs are anticipated to grow more than 40 percent, from $50.4 million in 2005-06 to $70.8 million in 2008-09.

Pension costs are another fringe benefit category with significant projected baseline growth. Specifically, costs for the police and fire retirement system (PFRS) are expected to grow more than $3.4 million over the next four years.

Utilities are the other major cost driver in the City's baseline expenditures. Overall, the City's Financial Plan assumes rate growth of 39 percent for natural gas and 8 percent for electricity over four years.

Outside of these few growth categories, City expenditures are projected to remain relatively flat through 2008-09. Personal service costs (excluding fringes) show no growth, due to the continuation of the wage freeze imposed in April 2004 and the hiring freeze imposed in December 2003. Supply costs increase slightly (by $0.6 million, or 10 percent) to reflect anticipated gasoline and postage cost growth. Debt service expenditures related to short-term cash flow borrowings are projected to decline nearly $2.8 million, or 46 percent, over the four-year plan, in part a result of BFSA's lower issuance costs.

Baseline revenues are projected to decline slightly over the next four fiscal years, from $369.6 million in 2005-06 to $367.4 million in 2008-09. The reduction is entirely attributable to two items: the end of the Police Department's federal COPS grant ($1.8 million) and a slight decline in real property tax receipts ($0.4 million).

City of Buffalo
Baseline Revenues and Expenses
(in millions of $)

	2005-06	2006-07	2007-08	2008-09
Revenues	$369.6	$367.8	$367.5	$367.4
Expenses	$399.0	$404.2	$414.1	$424.1
Difference	**($29.4)**	**($36.4)**	**($46.6)**	**($56.7)**

The Financial Plan

The Financial Plan proposes to close the annual budget gaps through the introduction of new actions with recurring value in each of the next four fiscal years. When the recurring savings (or revenues) from actions implemented in one year are carried forward to subsequent fiscal years, the baseline gaps are narrowed. The shortfall that remains after those recurring actions is the "revised gap", and is the amount of truly *new* savings or revenues the City needs in each year to balance its budget.

After the City's baseline gaps are revised, shortfalls of $18.0 million, $4.0 million, $7.5 million and $11.0 million remain in each of the next four fiscal years (as shown in the following table). Through a combination of workforce reductions, health insurance reforms and additional State aid, the City's Financial Plan proposes a strategy to close each year's shortfall.

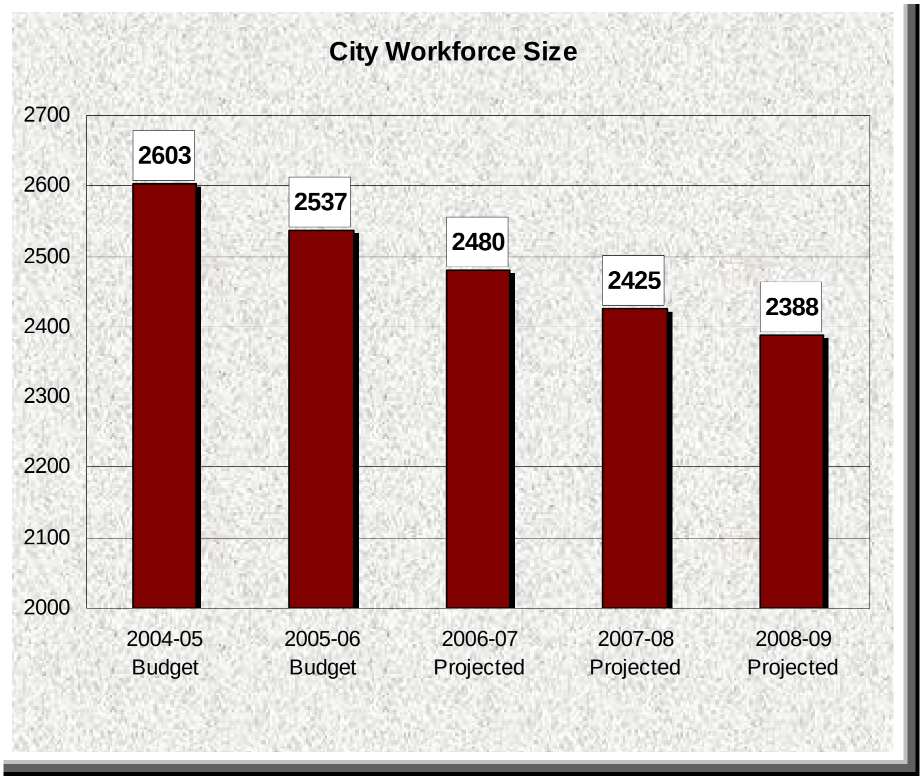
City of Buffalo **Baseline-to-Revised Gap Projections** (in millions of $)				
	2005-06	**2006-07**	**2007-08**	**2008-09**
Baseline Gap	$29.4	$36.4	$46.6	$56.7
Value of Budgetary Actions	*($11.4)*	*($32.4)*	*($39.1)*	*($45.7)*
Revised Gap	**$18.0**	**$4.0**	**$7.5**	**$11.0**

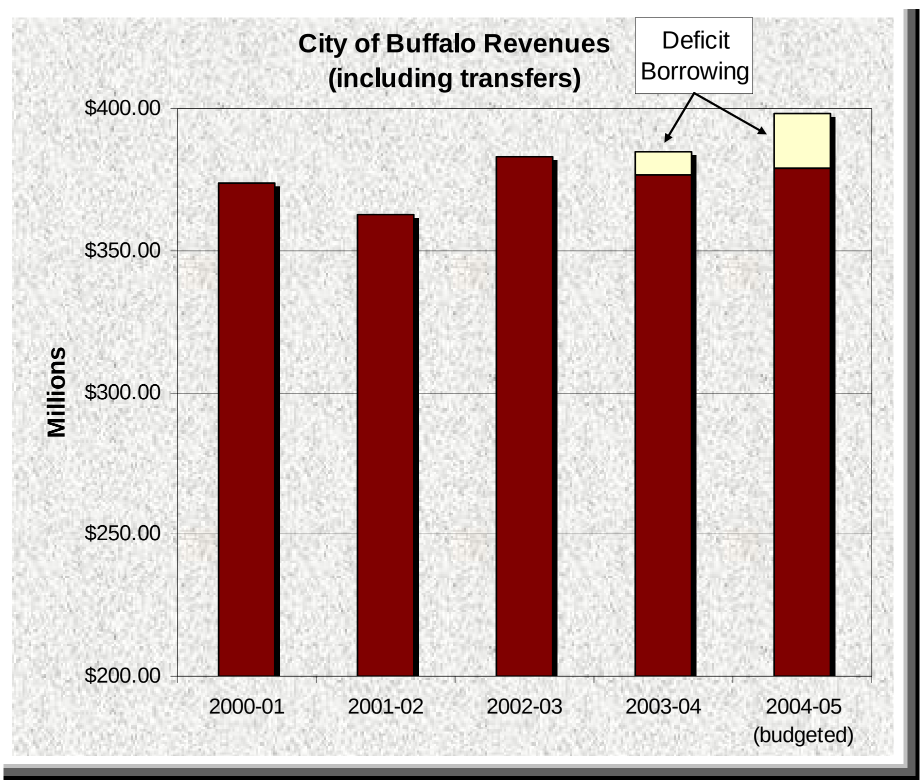
The City's Financial Plan through 2008-09 assumes savings from several City initiatives and a major influx of additional State aid. Unlike the first two Financial Plans approved by BFSA in 2003 and 2004, this plan does not contain a provision for deficit borrowing. In total, it provides for nearly $41 million in new, recurring actions to close all projected budget gaps over the next four fiscal years. The largest component, additional State Aid, comprises nearly $21.6 million of the gap-closing strategy.

Increases in State Aid are assumed in years one, three and four of the Financial Plan, and these increases are assumed to be recurring. In year one (2005-06), the City includes $13.1 million in additional aid that has already been provided in the adopted 2005-06 State budget. The two out-year increases, totaling $2.9 million in 2007-08 and $5.5 million in 2008-09, are currently speculative. While they are within the parameters of increased State aid that was proposed in the Governor's Executive Budget this year, they are not guaranteed until the State's budget is finalized in both of those years. Both increases require additional action from the State that, while certainly possible, cannot be assured at this time.

The City's Financial Plan assumes an influx of additional State aid, along with adjustments to retiree health insurance and the elimination of certain vacant positions.

Adjustments to the current retiree health insurance package are projected to provide an additional $10.4 million in savings over the four years of the plan. Attrition in the Police and Fire Departments would generate $3.7 million in savings, while the elimination of certain vacant positions in 2005-06 is expected to save $4.9 million. Finally, an initiative to cut back school crossing guard services – to reflect recent and future school closings – would save $0.3 million. The overall plan would reduce the City's budgeted workforce to 2,388 by fiscal year 2008-09, continuing the reduction in City workforce. Since the beginning of 2003-04, the number of filled City positions has declined from 2,818 to 2,492 at the end of 2004-05, a reduction of more than 11 percent. The following graph shows the budgeted (and projected) workforce size between 2004-05 and the end of the Financial Plan.


City Workforce Size
2700
2600
2500
2400
2300
2200
2100
2000
2603
2537
2480
2425
2388
2004-05 Budget
2005-06 Budget
2006-07 Projected
2007-08 Projected
2008-09 Projected


City of Buffalo Revenues (including transfers)
Deficit Borrowing
Millions
$400.00
$350.00
$300.00
$250.00
$200.00
2000-01
2001-02
2002-03
2003-04
2004-05 (budgeted)

City of Buffalo Gap-Closing Plan (in millions of $)	2005-06	2006-07	2007-08	2008-09
Vacancy Cuts	**$4.9**	**--**	**--**	**--**
This is a low-risk initiative that includes 40 titles in the Police Department, 25 in the Fire Department, and 20 in other City departments. The first-year savings of $4.9 million recurs at higher amounts in each out-year (up to $6.0 million by 2008-09) due to the avoidance of increasing benefit costs.				
Retiree Health Insurance	**--**	**$2.0**	**$3.0**	**$5.4**
This is a high-risk initiative requiring negotiation with retirees, and the shift to both a Medicare-based senior health package and a self-insured prescription benefit. The Financial Plan assumes savings will phase-in through 2008-09, with new retirees signed up in each year. In each case, the savings introduced in one year would recur in future years, providing permanent savings.				
Police Attrition	**--**	**$1.6**	**$0.9**	**--**
This is a moderate-risk initiative that assumes police officers will continue to retire at the rate of 20 full-time equivalents (or 40 actual officers) per year through 2007-08. The contract signed by the City and Police Benevolent Association in 2003 assumes a reduction in the size of the force to 675 by the end of 2006-07 (through attrition, since layoffs are not permitted). Under this savings assumption, the force would contract from 777 officers in 2005-06 to 737 in 2006-07, 697 in 2007-08, and 675 in 2008-09.				
Fire IOD Attrition	**--**	**$0.6**	**$0.6**	**--**
This is a moderate-risk initiative because it assumes New York State will continue the current pace of processing and approving disability retirements for firefighters that have been classified injured-on-duty (IOD) status for at least six months. When injured personnel are approved for disability retirement, the State defrays a portion of their salary costs which the City would otherwise be required to pay itself. The Financial Plan savings assumes 15 such retirements each year, and is consistent with the strategy included in the City's MMA fire reengineering report.				
Increased State Aid	**$13.1**	**--**	**$2.9**	**$5.5**
This initiative has no risk in 2005-06, since the additional $13.1 million has already been provided for in the 2005-06 State budget. The two out-year increases, however, are considered risky at this point due to their speculative nature. While they are within the aid increases originally provided for in this year's Executive Budget (as part of the Aid and Incentives to Municipalities program), they will not be assured until the State budget is adopted in each of those years. To guard against this risk, the Financial Plan provides for a property tax increase as the balancer in 2007-08 and 2008-09, should the State aid not be made available. That action itself presents risk, however, given the City's narrow constitutional tax margin. The $13.1 million in new State money in 2005-06 represents nearly 73 percent of the City's gap-closing strategy in the first year of the Financial Plan. If this money did not recur, gaps in each out-year would more than double.				
Crossing Guard Cuts	**--**	**$0.3**	**--**	**--**
This initiative would reduce the crossing guard workforce below its current level of 170, as a result of past and anticipated school closings. The initiative was originally included in the last Financial Plan and scheduled for a July 1, 2005 start date, but has been pushed back to 2006-07.				
Total New Savings	**$18.0**	**$4.5**	**$7.5**	**$11.0**
Remaining Gap	**--**	**--**	**--**	**--**

Buffalo Public Schools

The Baseline Budget Gap

*[**Note**: The baseline gap numbers presented in this section reflect those in the four-year Financial Plan approved by BFSA in June 2005, with the exception of the modified 2005-06 budget numbers that BFSA approved in August 2005. The Authority has required the District to submit a modified four-year Financial Plan in October 2005, which is likely to adjust out-year gap projections to reflect changes in anticipated health insurance growth rates and workforce reductions.]*

In projecting its baseline budget gap, the School District uses the assumptions noted previously: Revenues are projected no higher than the previous year, unless there is sufficient justification to do otherwise; similarly, expenditures are projected no lower than the previous year unless there is clear justification to do otherwise. The resulting baseline gap is the size of the structural budgetary shortfall *before* the School District takes any actions to close it.

The School District's baseline gap grows significantly over the course of the 2005-2009 Financial Plan, despite the significant workforce reductions (897 positions from 2001-02 through 2004-05) and school closings implemented in the past several years. Even with a smaller workforce, teacher pension costs and employee health insurance continue to be among the District's largest growing cost categories.

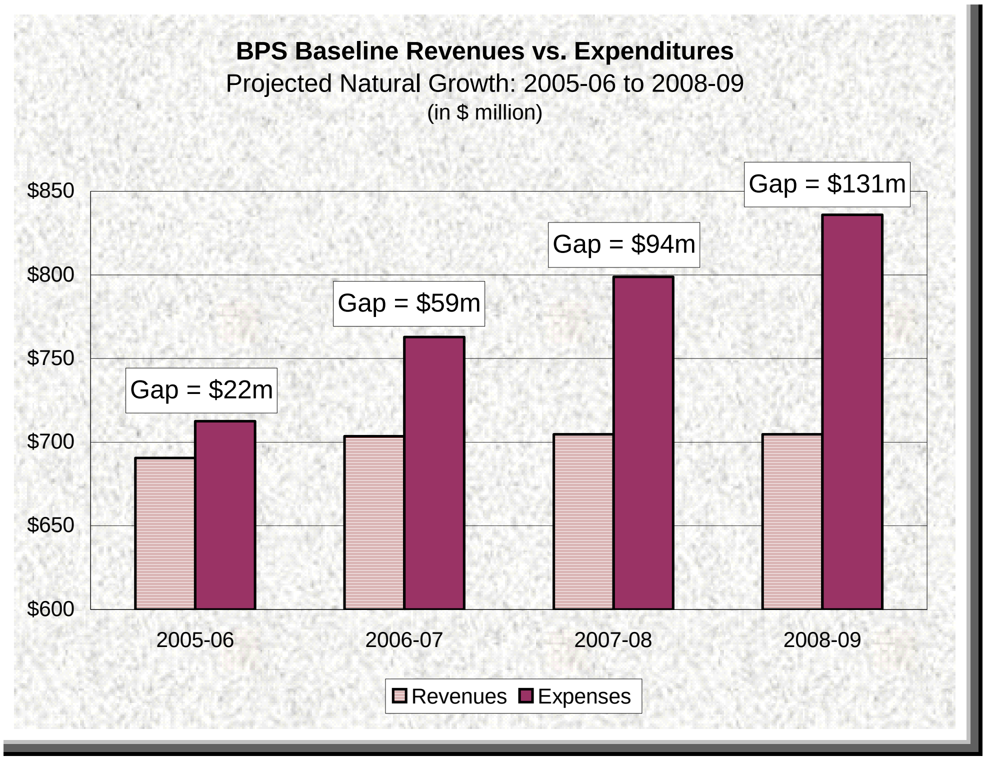
The School District's baseline gap grows significantly over the course of the Financial Plan, despite a shrinking enrollment base.

The gap grows significantly, despite an ongoing decline in enrollment that is projected to continue. District enrollment fell 16 percent from October 2000 through October 2004, from 45,902 to 38,479. The loss was particularly acute in the early grades: grades 1 through 4 fell by more than 24 percent each.

Overall, the District's baseline gap grows from $21.6 million in 2005-06 to $131 million in 2008-09. The burgeoning structural hole requires significant and aggressive action to close in each fiscal year, and represents an acute challenge to the District's efforts to improve the quality of its classroom product.

The District's baseline revenues are projected virtually flat over the next four years. The only notable increase pertains to State building aid to defray debt service costs on Phase II of the Joint Schools Construction (JSCB) initiative. That aid grows from $11.8 million in 2005-06 to $23.5 million for 2006-07 through 2008-09. The State has indicated its intention to provide these increased funds, but actual receipt is entirely dependent upon future State legislative action.

Beyond JSCB building aid, most baseline revenue categories are projected to remain constant through the Financial Plan. State transportation aid is expected to grow slightly in 2006-07 (by $0.9 million); local share funds for JSCB, generated from investment earnings and interest in the project's construction fund, grow slightly in 2007-08 (by $1.2 million); and food service revenues are projected to grow slightly each year (by approximately $0.1 million).



The primary cause of the growing structural gap is not only the projection of limited opportunities for guaranteed or locally generated revenue enhancement, but significant growth projections in several major cost categories. Overall, baseline expenditures are projected to grow more than $120 million, or 17 percent, over the next four years absent any further actions to control that escalation, **even with wage freeze savings in place**. More than two-thirds of that growth is directly attributable to fringe benefits. Baseline health insurance cost growth continues to be driven not only by market forces but by contractual guarantees granted in a bygone era but perpetuated through the State's Triborough doctrine.

Baseline spending in the District is projected to grow $120 million, or 17% over the next four years absent actions to control that escalation.

Teacher pension costs grow by $5.6 million. Termination pay expenses grow by $2.2 million. Mirroring the pattern in the City, the District's workforce continues to cost more *despite* the wage freeze *and* large reductions in personnel.

Buffalo Public Schools Baseline Revenues and Expenses (in millions of $)				
	2005-06	**2006-07**	**2007-08**	**2008-09**
Revenues	$691.0	$703.5	$704.7	$704.7
Expenses	$712.6	$762.8	$798.9	$835.9
Difference	**($21.6)**	**($59.3)**	**($94.2)**	**($131.2)**

The Financial Plan

The Financial Plan proposes to close the annual budget gaps through the introduction of new actions with recurring value in each of the next four fiscal years. When the recurring savings (or revenues) of actions implemented in one year are carried forward to subsequent fiscal years, the baseline gaps are narrowed. The shortfall that remains after those recurring actions is the "revised gap", and is the amount of truly *new* savings or revenues the District needs in each year to balance its budget.

After the School District's baseline gaps are revised, shortfalls of $21.6 million, $43.1 million, $34.9 million and $37.0 million remain in each of the next four fiscal years. The District's Financial Plan represents its strategy to close each year's shortfall through significant workforce reductions, health insurance reforms, additional school closures and a modest increase in State aid.

Buffalo Public Schools Baseline-to-Revised Gap Projections (in millions of $)				
	2005-06	**2006-07**	**2007-08**	**2008-09**
Baseline Gap	$21.6	$59.3	$94.2	$131.2
Value of Other Budgetary Actions		*($16.2)*	*($59.3)*	*($94.2)*
Revised Gap	**$21.6**	**$43.1**	**$34.9**	**$37.0**

The School District's Financial Plan is primarily based on three major initiatives. The first, and most significant measure, involves a substantial workforce reduction.* Savings of $12.1 million in 2005-06 would grow to an aggregate

* The workforce reduction plan summarized herein is as it appeared in the four-year Financial Plan originally approved by BFSA in June 2005. The ongoing legal and arbitration disputes regarding the imposition of a single health insurance carrier

amount of $55.7 million by the fourth year of the plan. Given that 870 teaching positions were already eliminated by the District between 2000-01 and 2004-05, and in light of the District's substandard academic achievement and State test performance, these reductions may represent a significant risk to efforts targeted at improving the quality of education provided to District students.

Beyond these workforce cuts, the Financial Plan provides for additional staff downsizing (if necessary) through increased class sizes. This could enable an additional 787 position cuts by 2008-09, generating cumulative savings of $52.1 million. The Plan provides for these positions to be reinstated in the Financial Plan to the extent that additional State aid is provided in out-years. However, given the speculative nature of extraordinary future aid increases, the District's plan opts for certain savings in the form of workforce reductions.

Altogether, the staff reduction plan could result in 1,500 position cuts by 2008-09. The enrollment level is projected to decline from 37,000 in 2005-06 to 30,500 by 2008-09. The maximum class size initiative could increase classes to 30 for kindergarten and the primary grades, and 32 for fourth through sixth grade, pursuant to the limits provided for in the teachers' union contract.

The second initiative involves the District continuing to downsize its facilities portfolio. The Financial Plan provides for three school closings in each of the next four years, bringing to 12 the total number of closures/suspensions through 2008-09. At full implementation, the closure plan yields cumulative savings of $5.0 million by 2008-09. These savings pertain only to facility costs; staff reductions enabled by the closings are included in the workforce savings itemized above.

Third, the District's Financial Plan assumes savings from implementation of a single-carrier health insurance program in 2005-06. The plan mirrors what the City adopted in 2004-05, and shifts District employees to one insurance carrier (Blue Cross/Blue Shield). By consolidating insurance offerings in a single provider, the District projects savings of $8.3 million in General Fund insurance costs in 2005-06, recurring each subsequent year. This *will not reduce* the District's insurance costs on a year-to-year basis. In fact, even with this initiative, General Fund insurance expenses grow from 2004-05 to 2005-06. However, the initiative will reduce what the District would have otherwise had to pay for insurance in the absence of a single carrier program.

In addition to these major actions, the District's Financial Plan assumes increases in State aid in 2006-07 of $3.8 million, growing to $3.9 million by 2008-09. While these increases are modest relative to recent jumps in State aid to the District, they are nevertheless speculative until provided for in those years' State budgets.

---

subsequently led the District to issue an additional 114 layoff notices (through the elimination of 148 positions) for the school year that begins in September 2005.

Modified Budget for 2005-06

When BFSA approved the School District's Financial Plan on June 8, 2005, the initiative to shift all District employees to a single health insurance carrier was facing legal and arbitration challenges. The District's labor unions contended that the District could not unilaterally change health insurance offerings, while the District maintained that all coverage would be fully replicated and benefit levels would be maintained.

In July, unions successfully won a legal injunction against the District's efforts to enroll employees in the single carrier. The injunction prohibited the District from moving forward on the initiative, pending arbitration. As a result, at BFSA's July meeting, the Fiscal Stability Authority directed the School District to prepare a budget modification to address the resulting loss of savings which (as noted above) represented a significant piece of the District's budget gap-closing strategy.

Prior to BFSA's August meeting, the injunction that had prohibited the District from unilaterally implementing the single carrier was lifted. The injunction was removed[*] due to the unions' failure to comply with one of the court's initial conditions for the injunction (*i.e.*, putting up a bond to protect the District against lost savings should the unions ultimately lose the arbitration case). With the injunction lifted, the District restarted its efforts to enroll all employees under the single insurance carrier, Blue Cross / Blue Shield.

In order to comply with the BFSA-required budget modification, the District presented a new spending plan for 2005-06 at the Authority's August 31, 2005 meeting. With the injunction lifted, the District retained the health insurance savings that were in the original Financial Plan, albeit on a 10-month basis rather than a full-year since two months had been lost to court challenges and the injunction. However, recognizing that there remains substantial risk in the insurance initiative with an arbitration pending, the District modified its budget to hedge against any potential arbitration loss. The modification included a "single carrier contingency" of nearly $7 million to protect against lost savings. In order to balance that contingency line, the budget modification also eliminated 148 positions from the original budget (114 of which were filled):

> 58 teachers, 32 administrators, 43 white collar employees, 10 teacher aides, 1 trades worker, 2 blue collar employees and 2 custodial engineers.

[*] The injunction was lifted on all bargaining units *except* the administrators' union, which did comply with the bond requirement.

The modified budget provides for a reinstatement of these positions if the District wins in arbitration, or if the unions agree to drop their ongoing challenge to the single insurance carrier.

Buffalo Public Schools Gap-Closing Plan (in millions of $)	**2005-06**	**2006-07**	**2007-08**	**2008-09**
School Closings	**$1.2**	**$1.2**	**$1.2**	**$1.3**
The District would continue to downsize its school building portfolio, closing or suspending service at 3 buildings each year through 2008-09. New savings are introduced each year as additional schools are closed. These savings pertain only to facility costs (utilities, custodial services and repairs/maintenance), excluding staff reductions.				
Staff Reductions	**$12.1**	**$23.2**	**$14.6**	**$12.7**
By this initiative, the District would incrementally reduce staff by 711 over the next four years – 95 in 2005-06, 314 in 2006-07, 169 in 2007-08 and 133 in 2008-09. New savings are introduced each year as additional reductions are implemented.				
Health Insurance	**$8.3***	**$1.8**	**$1.0**	**$1.9**
Although it continues to be challenged by unions in the arbitration process, the District is implementing a single health insurance carrier program. The initiative provides District health insurance through Blue Cross/Blue Shield, and will generate recurring General Fund savings of $9.8 million in 2005-06, with additional savings in each out-year. The initiative does not reduce the District's health insurance costs below the prior year's level, but mitigates the cost increase it would have otherwise faced. *First-year savings is based on a 10-month period, since the first two months of the 2005-06 FY were lost as a result of legal challenges by bargaining units.				
Increased State Aid	**--**	**$3.8**	**--**	**$0.1**
The District's plan assumes a modest increase in State operating aid in 2006-07. While this is a small increase when compared to recent-year increases, this $3.8 million is still speculative and considered to be a risky assumption until those funds are provided for by New York State.				
Increased Class Size and Additional Staff Cuts	**--**	**$13.1**	**$18.1**	**$20.9**
In the absence of additional State aid (beyond the $3.8 million noted above), the District's plan closes the remainder of budget gaps between 2006-07 and 2008-09 through a shift to larger class sizes, enabling a massive reduction in staff. In order to achieve the requisite recurring savings to close each year's shortfall, the District would eliminate 205 positions in 2006-07, 271 in 2007-08 and 311 in 2008-09, for a total of 787 positions. These cuts would be in addition to the 711 position cuts provided for in the "Staff Reductions" initiative shown above.				
Total New Savings	**$21.6**	**$43.1**	**$34.9**	**$37.0**
Remaining Gap	**--**	**--**	**--**	**--**

Other Covered Organizations

Buffalo Municipal Housing Authority

The Buffalo Municipal Housing Authority (BMHA) continues to struggle with significant fiscal issues. A mid-year budget modification approved in January 2005 contained stark cuts, reflecting a previous inability to cut expenses at a rate commensurate with federal funding reductions. BMHA's fourth quarter report for 2004-05 projected a $1.6 million shortfall, less than the $2 million that was contained in its modified budget. That gap will be covered through the use of reserves. This follows a $1.6 million deficit in 2003-04 which was also covered with reserve funds.

While BMHA has traditionally tapped its reserves to underwrite annual budget deficits, it is projecting that only $4 million will remain in its reserve at the end of 2004-05. The federal Department of Housing and Urban Development (HUD) requires BMHA to maintain a minimum of $3 million in reserves, and it has warned the Housing Authority that any further winnowing of its reserve account places it at risk of being labeled a "troubled" agency and possible HUD takeover.

As a result of HUD warnings, BFSA permitted the Housing Authority to use minimal reserve funds in its 2005-06 budget (roughly $3,000). BMHA's budget is balanced without the use of reserves, but the budget and Financial Plan require immediate action to be successfully implemented. The major action involves staff reductions scheduled to take effect on July 1, 2005. In addition to eliminating its public safety (housing police) department, BMHA is reducing staff levels in several other departments and significantly reducing maintenance and tenant service expenditures.

Financial Plan

The following table illustrates the depth of the cuts BMHA will absorb over the next four years in order to maintain budgetary balance. A total of $3.5 million, or 11 percent of prior-year expenditures, will be cut in 2005-06 alone, and substantial spending reductions will follow in subsequent fiscal years. The Housing Authority's strategy to achieve annual budgetary balance over the near-term and the four-year Financial Plan is laden with risk and contains little margin for contingencies.

Buffalo Municipal Housing Authority
Operating Revenues and Expenses
(in millions of $)

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Revenues	$29.75	$29.52	$28.14	$26.66	$25.88	$25.99
Yr-to-Yr Incr/(Decr)		(0.79%)	(4.67%)	(5.26%)	(2.91%)	0.45%
Expenditures	$31.40	$31.51	$28.01	$26.46	$25.74	$25.80
Yr-to-Yr Incr/(Decr)		0.34%	(11.1%)	(5.55%)	(2.73%)	0.23%

** Operating revenues/expenses only; Does not include grant revenues*

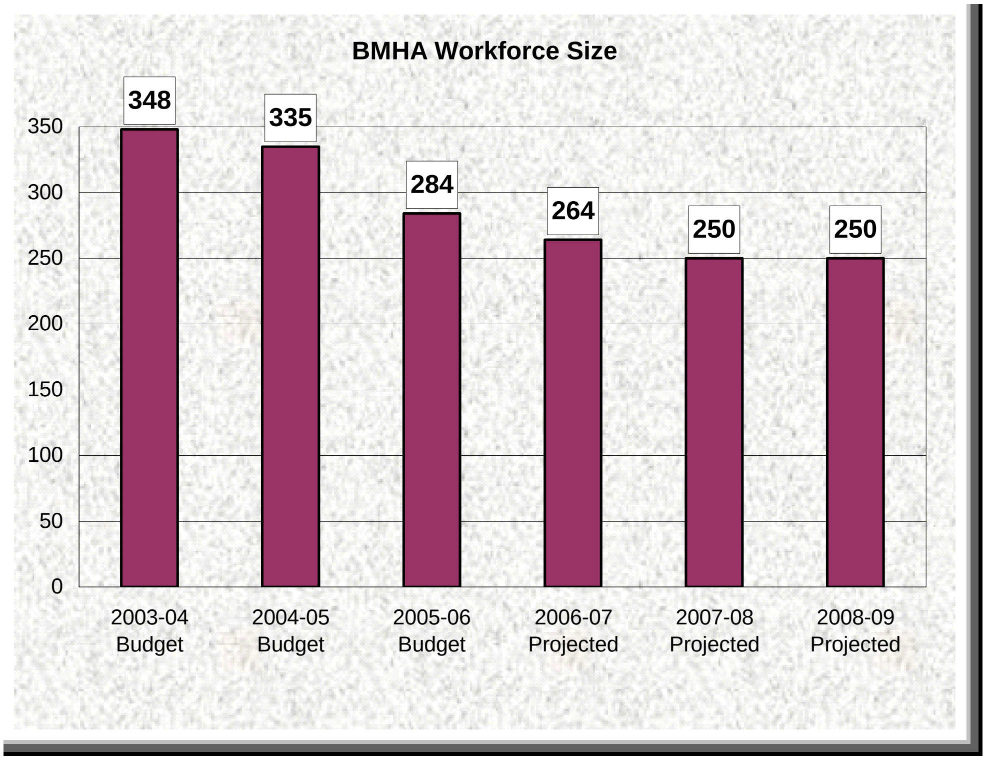
While reductions in federal funding are the primary reason for BMHA's revenue decreases, the Housing Authority is also reducing the amount of capital funds it draws down for operating purposes (as recommended by BFSA). HUD allows up to 20 percent of its capital grant to be used for indirect administrative outlays, and BMHA took full advantage of this allowance in 2005. BMHA's Financial Plan will cut the Housing Authority's reliance on its capital grant to 50 percent of the cost cap in 2006, enabling more funds to flow into needed capital expenditures. This effectively further reduces the Housing Authority's available operating revenue.

BMHA's budget and Financial Plan provide for the following:

- Elimination of the Authority's housing police, saving $1.6 million;
- Layoff of maintenance and administrative staff in 2005-06, saving $0.5 million;
- Additional out-year staff reductions;
- Out-year reductions in the growth rate of health costs through the implementation of a single insurance carrier program in 2004-05; and
- Substantial reductions in maintenance expenses (supplies and certain outside contracts) in 2005-06, which will cut costs by more than $1.1 million.

In all, BMHA's workforce is projected to contract from 335 in 2004-05 to 284 in 2005-06, 264 in 2006-07 and 250 in 2007-08, a more than 25 percent reduction over the four-year period.

Because BMHA covers utility costs in its housing units, the Housing Authority's Financial Plan is particularly sensitive to growth in this spending category. BMHA has conducted an energy audit with Siemens Building Technologies, and has entered into the first phase of an energy performance contract to upgrade its Kenfield-Langfield power plant. Primarily as a result of associated savings, BMHA has projected utility costs to remain constant through the four years of the Financial Plan (at $7.7 million, or 3 percent higher than in 2004-05). The risk here is substantial, should utility rates escalate beyond any savings generated through energy upgrades or the energy audit program.



Buffalo Municipal Housing Authority
Gap-Closing Plan
(in millions of $)

	2005-06	2006-07	2007-08	2008-09
Workforce Reductions	$2.1	$0.7	$0.5	--
BMHA's workforce will be reduced by approximately 50 positions in 2005-06, including $1.6 million in savings from the elimination of the Housing Authority's police force. The elimination of public safety staff will cut 32 positions. Eight maintenance staff positions are among the cuts in 2005-06. BMHA will cut 20 more positions in 2006-07, and 14 in 2007-08, producing new recurring savings in each of those years.				
Administrative Savings	$0.3	--	--	--
BMHA will eliminate out-of-town travel and training, and reduce supplies and telephone costs in the first year of the plan.				
Maintenance Cuts	$1.1	$0.1	--	--
The reduction in maintenance costs is primarily due to the elimination in contracted-out work. BMHA staff will assume these maintenance responsibilities, but will do so with a workforce that will shrink from 116 in 2004-05 to 94 by 2007-08.				
Tenant Services	$0.4	--	--	--
Tenant services costs are reduced in 2005-06 to reflect a reduction in contracted services. A small amount (roughly 1 percent) of the savings will not recur in the out-years, since approximately $7,000 in increased costs are provided for in each out-year (in order to reflect the 2 percent annual adjustment factor provided by HUD for the Buffalo region). The remainder of the first-year savings will recur.				
Benefit Savings	--	$0.8	$0.2	--
These savings represent reductions in benefit costs associated with future workforce reductions.				
Miscellaneous Savings	$0.1	$0.1	$0.1	--
Additional savings will be realized through reduction in materials, supply and equipment costs. Other expenses, including relocations and claims, are also projected to decrease over the next three years.				
Total New Savings	$4.0	$1.5	$0.9	$0.0
Remaining Gap	--	--	--	--

Buffalo Urban Renewal Agency

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

> ***The primary budgetary issue in BURA continues to be an accumulated deficit from prior years.***

In BURA's first Financial Plan (submitted in September 2003), the prior-years' shortfall was estimated at more than $5 million. Today, based on actions BURA has taken to close-out prior year accounts and reallocate unused funds, the deficit stands at $3.3 million. [Note: BURA's deficit figure is subject to change as it continues to reclaim unspent funds from prior years' allocations.]

Financial Plan

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

- Recovering unused funds previously granted to, but unused by, sub-recipients;
- Using income generated by sub-recipients;
- Generating operating savings from negotiated "cost caps" with the federal Department of Housing and Urban Development (HUD); and
- Selling assets and/or increasing the recovery of outstanding loans.

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

Another option to close the shortfall may involve redirecting $3.3 million in funds originally intended for 2004-05 programming. BURA is awaiting HUD's response to its deficit elimination plan before implementing these gap-closing actions.

In general, BURA's revenues are comprised of federal grants, along with some income from grant sub-recipients. The Agency's Financial Plan projects 2005-06 revenues at $30.8 million, up 1 percent from 2004-05. The increase is attributable to slight growth in program income and increases in loan recovery and asset sales.

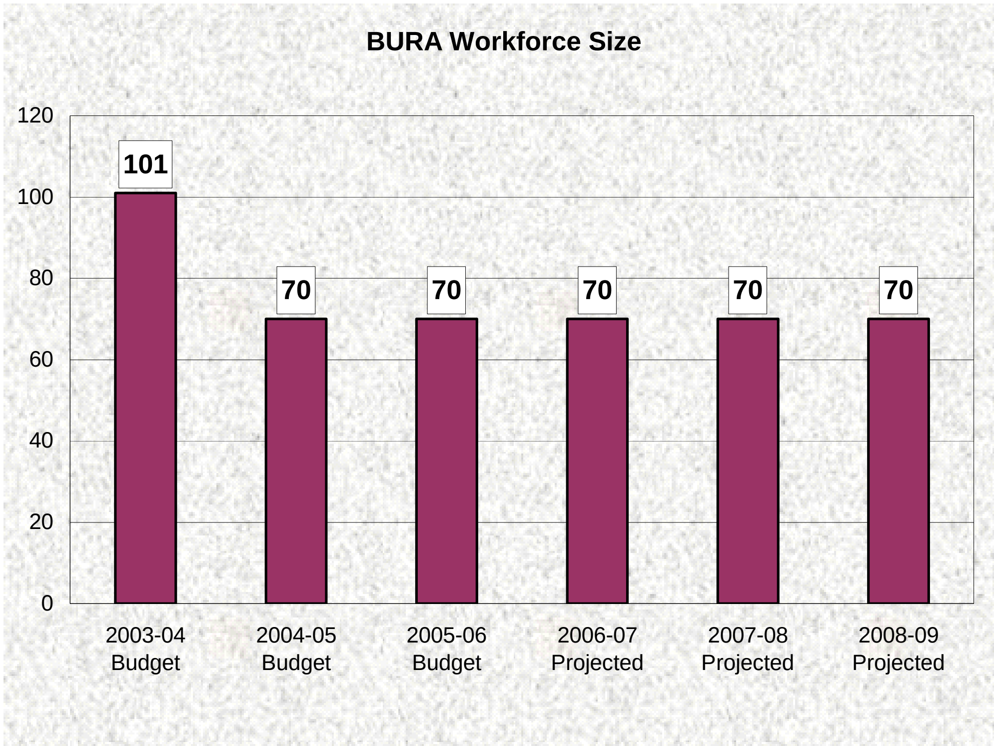
Buffalo Urban Renewal Agency Revenues and Expenses (in millions of $)						
	2004-05 Budget	**2004-05 Projected**	**2005-06**	**2006-07**	**2007-08**	**2008-09**
Revenues	$30.4	$28.2	$30.8	$27.5	$27.6	$27.7
Expenses	$30.4	$28.2	$30.8	$27.5	$27.6	$27.7

In order to project its resources conservatively, BURA is assuming annual revenues of $27.5 million for 2006-07 through 2008-09, down from $30.8 million in 2005-06. This overall revenue decline is attributable to the assumption of flat federal grant revenues, along with a decline in expected loan recoveries and asset sales. The 2005-06 figure represents already-committed federal grant funds.

As part of the agreement with HUD that freed up HOME (Home Investment Partnership Program) funding for Buffalo, BURA continues to reduce its “cost cap” amounts, decreasing the amount of federal funding available for program administration. This approach has enabled a redirection of $1 million in annual operating funds for one-time expenses approved by HUD, such as tree-trimming and demolitions.

BURA’s spending plan provides for 70 staff positions with salary costs of $2.9 million.

BURA’s plan to close its accumulated deficit does contain some risk, both logistically and programmatically. First, any funds that are redirected from the current (or future) year to address the deficit will reduce funds available for programs on a dollar-for-dollar basis. Second, several of the proposed gap-closing strategies are speculative in nature. Loan recovery, asset sales and growth in sub-recipients’ program income are not assured, and thus do not provide certainty. Third, as a flow-through agency for federal block grants, BURA may experience reductions in resources beyond 2006-07. The federal government continues to debate a restructuring of the block grant program, and any modification is likely to impact agencies like BURA.



Buffalo Urban Renewal Agency
Revenues by Major Category
(in millions of $)

	2004-05 Budget	2004-05 Projected	2005-06	2006-07	2007-08	2008-09
Block Grants	$19.5	$20.2	$18.1	$18.1	$18.1	$18.1
HOME*	$5.3	$2.4	$5.1	$5.1	$5.1	$5.1
Program Income	$2.8	$2.3	$3.0	$2.0	$2.0	$2.0
Other	$2.8	$3.4	$4.6	$2.3	$2.4	$2.5
Total	**$30.4**	**$28.2**	**$30.8**	**$27.5**	**$27.6**	**$27.7**

* HOME revenue projections have dropped significantly from budget in 2004-05 because BURA spent less HOME dollars on planned projects. This difference does not necessarily mean that these revenues will never materialize. Rather, these HOME dollars will be available and spent over the next two fiscal years.

Buffalo Urban Renewal Agency
Expenses by Major Category
(in millions of $)

	2004-05 Budget	2004-05 Projected	2005-06	2006-07	2007-08	2008-09
Grant Expenditures	$25.8	$25.0	$26.2	$22.9	$23.1	$23.2
Admin & Planning	$4.6	$3.2	$4.6	$4.6	$4.5	$4.5
Total	**$30.4**	**$28.2**	**$30.8**	**$27.5**	**$27.6**	**$27.7**

Joint Schools Construction Board

During 2004-05, the Joint Schools Construction Board (JSCB) substantially completed – within budget – Phase I of Buffalo's school reconstruction project at a cost of $172 million. This first phase included renovation of 9 school buildings, as well as districtwide technology and energy performance projects. All Phase I schools are now in operation.

Also during 2004-05, BFSA approved – and JSCB issued – $310 million in debt to finance the substantially larger Phase II of the school reconstruction project. BFSA also participated in the pricing of this debt. Phase II consists of the renovation of 13 school buildings and All-High Stadium, and new districtwide technology and energy performance projects. The projects are 94.3 percent reimbursable by New York State, with the local share funded primarily from investment earnings on the project funds (Note: The local share financing is discussed in more detail in the following section).

Bids for the work under Phase II will be staggered and the bidding process will not be completed until the Spring of the 2005-06 fiscal year. Work on seven schools had been bid out as of September 15, 2005; four contracts have been awarded, and bids have been received for the three others. All 13 projects have been designed and their costs estimated. These costs, as well as issuance costs, have been allocated on a school-by-school basis. The initial seven schools are expected to be ready for occupancy for the start of the 2006-07 school year, with the remainder opening the following year.

The major risk involved in Phase II is that actual bid responses may differ substantially from estimated costs of construction. This phase of the renovation program is so large that it could strain local construction resources, with potential cost implications. To avoid these problems JSCB is lengthening the bidding process, which will result in some delays in the completion of certain projects. If costs were to come in at substantially higher levels, plans and specifications will have to be modified to fit the budget constraints and submitted for reapproval to the NYS Department of Education. This scenario could result in further delays in the completion of the projects. The escalation of construction materials costs may also impact the outcome of Phase II.

The following tables show progress through August 2005 on each of JSCB's Phase I schools and initiatives:

Joint Schools Construction Board
Status of Phase I Projects as of August 31, 2005
(in millions of $)

	School 19	School 31	School 38	School 66	School 67	School 74
Project Cost	$12.412	$15.455	$10.368	$10.535	$12.949	$16.055
Spent through 8/31	$12.358	$15.441	$10.358	$10.470	$12.944	$15.894
% Completed	**99.6%**	**99.9%**	**99.9%**	**99.4%**	**99.9%**	**99.0%**

Phase I Projects (continued)
(in millions of $)

	School 80	School 302	School 307	Tech-nology	Energy Perf	Total
Project Cost	$14.576	$22.006	$24.307	$23.774	$9.915	$172.352
Spent through 8/31	$14.505	$21.926	$24.267	$23.682	$9.915	$171.760
% Completed	**99.5%**	**99.6%**	**99.8%**	**99.6%**	**100%**	**99.7%**

The following tables show progress through August 2005 on each of JSCB's Phase II schools and initiatives:

Joint Schools Construction Board
Status of Phase II Projects as of August 31, 2005
(in millions of $)

	School 6	School 33	School 37	School 39	School 69	School 82
Project Cost	$18.515	$13.189	$14.246	$19.591	$13.250	$10.373
Spent through 8/31	$2.344	$1.668	$1.832	$2.436	$1.703	$1.291
% Completed	**12.7%**	**12.6%**	**12.9%**	**12.4%**	**12.8%**	**12.4%**

Phase II Projects (continued)
(in millions of $)

	School 90	School 91	School 94	School 95	School 192	School 200
Project Cost	$8.854	$13.724	$16.072	$26.900	$32.656	$33.385
Spent through 8/31	$1.081	$1.727	$2.055	$5.185	$3.152	$3.283
% Completed	**12.2%**	**12.6%**	**12.8%**	**19.3%**	**9.7%**	**9.8%**

Phase II Projects (continued) (in millions of $)					
	School 304	**All High Stadium**	**Tech-nology**	**Energy Perf**	**Total**
Project Cost	$32.874	$6.620	$38.496	$9.251	$307.997
Spent through 8/31	$3.231	$0.035	$11.042	$5.295	$47.361
% Completed	**9.8%**	**0.5%**	**28.9%**	**57.2%**	**15.3%**

Local Share Costs

The local share for JSCB Phase II is derived primarily from interest earnings on the funded amounts on deposit for Phase II development, as follows:

Construction Project Fund: The amount of money borrowed was $286.1 million and was funded in cash and invested. Funds will be drawn down over the next 24-to-36 months as construction advances. Some of the interest derived from these investments will also fund the projects, and when that funding is complete the remaining interest payments will go towards debt service. Both the interest used to fund the projects and those amounts going to debt service are considered local share funds.

Capitalized Interest Fund: A portion of the borrowed funds ($23.1 million) was deposited in an account which will pay interest during the construction period. Interest earnings on this account will go towards debt service and are counted as local share funds

Debt Service Reserve Fund: JSCB funded the Debt Service Reserve Fund (DSRF) as opposed to buying insurance to cover this requirement. The required amount was 125 percent of the average annual debt service, which equates to $33.1 million. These funds are invested in a long-term investment contract to yield the arbitrage rate. Interest earnings will be used for debt service, and the corpus of this fund will be used in the last debt payment. Both the interest and the corpus of the DSRF are considered local share.

Johnson Controls Contribution: Johnson Controls has guaranteed savings of over $530,000 per year derived from energy conservation improvements included in Phase II. Although this amount is not funded, the District can count it as local share since it is money that would otherwise have to be paid in energy costs but which can now be directed to debt service.

Excess Local Share from Phase I: A similar arrangement for funding Phase I resulted in excess monies that will not be needed for Phase I-related debt service, freeing them up to be used to fund subsequent phases of JSCB.

Appendix

This section presents summary information for the Buffalo Sewer Authority and Buffalo Water Board.

Buffalo Sewer Authority

The Buffalo Sewer Authority (BSA) is currently a covered-but-exempt organization, pursuant to action taken by BFSA at its January 21, 2004 meeting. The BSA reimburses the City of Buffalo $2.9 million annually for services the City provides the Sewer Authority.

As required, the BSA submitted its adopted 2005-06 budget to BFSA for review in May. A summary is presented below.

Buffalo Sewer Authority
Revenues and Expenses
(in millions of $)

	2002-03 Actual	**2003-04 Actual**	**2004-05 Budget**	**2005-06 Budget**
Revenues	$55.3	$48.9	$50.2	$53.1
Expenses	$41.8	$50.7	$50.2	$53.1

The BSA's major revenue sources are sewer rents ($41.1 million, or 77 percent), outside City contracts ($8.7 million, or 16 percent) and other revenues ($3.3 million, or 6 percent). Sewer rents include fees from flat rate and metered customers, as well as assessments. Outside City contracts represent revenue generated through sewer services provided to entities outside of the City of Buffalo.

The BSA's major expenditure categories are debt service ($14.8 million, or 28 percent), utility costs ($12.1 million, or 23 percent) and salaries and wages ($10.5 million, or 20 percent). An "other" category ($15.7 million, or 29 percent) includes employee fringes ($6.5 million), purchase of services ($5.2 million) and other miscellaneous costs ($4.0 million).

Sewer rents (rates) are set annually against assessed valuation to produce an amount equal to 105 percent of the Authority's expenditure projections, pursuant to bond covenants/agreements. However, this method did not work well in 2003-04. Revenues for that fiscal year were estimated using six months of actual data from what was then largely a flat rate customer base. During 2003-04, however, more flat rate users were converted to meters to charge based on actual usage. Metered usage had a negative impact on revenues, and forced the use of fund balance reserves to bridge a shortfall in that year.

The Sewer Authority annually establishes a five-year capital program to fund major projects. It currently has $84.7 million in outstanding bonded debt (68 percent of its total debt capacity of $125 million, pursuant to section 1187 of the Public Authorities Law). The current capital plan projects $41.2 million in additional debt over the next five years. Approximately $7.5 million of that is provided for in 2005-06, resulting in $0.3 million in additional debt service for the current fiscal year (over last year's total of $13.7 million). This year's capital investment will consist of $4.2 million for treatment plant rehabilitation and $3.3 million for new storm sewers.

Capital Plan

The BSA annually establishes a five-year capital program to fund major projects. It currently has $84.7 million in outstanding bonded debt, or 68 percent of its $125 million debt capacity. The five-year capital plan projects $41.2 million in additional debt, resulting in approximately $8.2 million per year in debt service costs. For 2005-06, the capital plan totals $7.5 million, consisting of $4.2 million for treatment plant rehabilitation and $3.3 million for new storm sewers.

Work Force

The BSA projects 230 employees for 2005-06, although budget authorization exists for 251. The actual workforce size is down slightly from last year, as shown in the following table:

Buffalo Sewer Authority Workforce

	2004-05 Positions	2005-06 Positions
Waste Water Treatment	147	140
Sewer Maintenance	53	53
Administrative	17	16
Engineering	13	13
Industrial Waste	8	8
Total	**238**	**230**

Buffalo Water Board / Municipal Water Finance Authority

The Buffalo Water Board (BWB) is currently a covered-but-exempt organization, pursuant to action taken by BFSA at its January 21, 2004 meeting. The BWB provides a subsidy to the City's General Fund each year. That amount has grown from $4.2 million in 2002-03 to nearly $4.7 million (budgeted) in 2005-06.

As required, the BWB submitted its adopted 2005-06 budget to BFSA for review in May. A summary is presented below.

Buffalo Water Board
Revenues and Expenses
(in millions of $)

	2002-03 Actual	2003-04 Actual	2004-05 Budget	2005-06 Budget
Revenues	$35.5	$34.9	$38.1	$39.0
Expenses	$28.4	$25.6	$38.1	$39.0

The BWB's major revenue sources are water sales ($31.0 million, or 79 percent), late charges ($0.8 million, or 2 percent), interest income ($0.4 million, or 1 percent) and a project reserve ($2.0 million, or 5 percent). Other revenues constitute $4.8 million, or 12 percent of the BWB's total receipts.

The BWB's major expenditure categories are its payment into the City's water service enterprise fund ($11.4 million, or 29 percent); its subsidy to the City's General Fund ($4.7 million, or 12 percent); debt service in both the enterprise fund ($1.2 million, or 3 percent) and Municipal Water Finance Authority ($12.0 million, or 31 percent); and for general Water Board operations ($9.7 million, or 25 percent).

One major effort regarding water in 2004-05 related to a potential merger between City and County systems. The State Environmental Facilities Corporation (EFC) had pledged $50 million in low-cost financing for the merger in its 2005 funding cycle, if the City and County could agree on the consolidation. The merger would have created a single system with significant economies of scale, and (according to the Buffalo Water Board and ECWA) would have stemmed the growth in water rates faced by City residents – which has been significant in recent years, as shown in the following table.

Water Rate Increases Buffalo Water Board
(Percentage rate increases from previous period)

	Jan '02	Jul '03	Jan '04	Apr '04	Oct '04	Jul '05	Total Since 2002
Metered Water Rates – Regular							
Water Rate	16.46%	11.75%	22.88%	3.31%	10.69%	7.48%	72.57%
Capacity Charge	8.49%	11.31%	22.89%	4.00%	10.15%	7.51%	64.36%
Metered Water Rates – Senior							
Water Rate	16.44%	11.70%	22.83%	3.93%	9.86%	7.44%	72.19%
Capacity Charge	8.04%	11.78%	22.88%	4.04%	10.01%	7.49%	64.25%
Flat Water Rates – Regular							
Water Rate	13.52%	11.81%	20.40%	4.01%	10.01%	7.51%	67.25%
Flat Water Rates – Senior							
Water Rate	13.49%	11.89%	20.40%	4.02%	10.01%	7.51%	67.32%

These increases reflect a myriad of factors, including the required transition from flat rate accounts to metered accounts and annual rainfall impact on water usage, both of which impact revenue. The Water Board has covenanted that total revenues must cover 100 percent of all costs of operation and 115 percent of total debt service.

Water "Summit" Meeting

On February 11, 2005, BFSA convened a meeting on the possible merger of the Erie County Water Authority (ECWA) and Buffalo Water Board. The meeting sought to address lingering concerns of the Buffalo Common Council over the merger, with the hope that the Common Council would put the merger proposal to public referendum. In the end, there were insufficient votes on the Council to put the measure on the ballot.

Work Force

The BWB projects 138 employees for 2005-06, down by two from 2004-05. A departmental breakdown is shown in the following table:

Buffalo Water Board Workforce

	2004-05 Budgeted Positions	2005-06 Budgeted Positions
Distribution Systems	53	53
Intake Pier Tower/Tanks	19	18
Filtration Plant	14	14
Administrative Services	15	18
Water Meters	14	13
Inspection/Meter Reads	13	13
Engineering and Lines	5	4
Mechanical Services	6	5
Water Fleet Maintenance	1	0
Total	**140**	**138**