Review of the Approved Four-Year Financial Plan for Fiscal Years Ending 2009-2012

Introduction

On June 5, 2008, by Resolution No. 08-27, BFSA approved a new financial plan for the City of Buffalo and its covered organizations as being complete and compliant with the standards set forth in Sections 3857 and 3858 of the Buffalo Fiscal Stability Authority Act and certified the revenue estimates in that plan. The plan contains projected revenue and spending levels for fiscal years 2008-09 through 2011-12.

This section summarizes the financial plan of the City of Buffalo and its covered organizations: the Buffalo School District, Buffalo Urban Renewal Agency (BURA), Buffalo Municipal Housing Authority (BMHA) and Joint Schools Construction Board (JSCB).

The proposed budget and financial plan was submitted by the Mayor to BFSA on May 1, 2008, in accordance with the requirements of the BFSA Act. Based on BFSA's preliminary review of the proposed budget and financial plan, as well as the School District's submission of a revised financial plan showing the potential liability of pending wage step litigation. This report summarizes that modified plan, the sixth such financial plan approved since BFSA was created by New York State in 2003 and the second since 2003-04 to not rely on the savings of a wage freeze.

While the approved financial plan is balanced, outstanding lawsuits challenging the timing and specific-employee impact of the lifting of the wage freeze could, if successful, have a significant negative impact on the City and School District and require dramatic financial plan modifications.

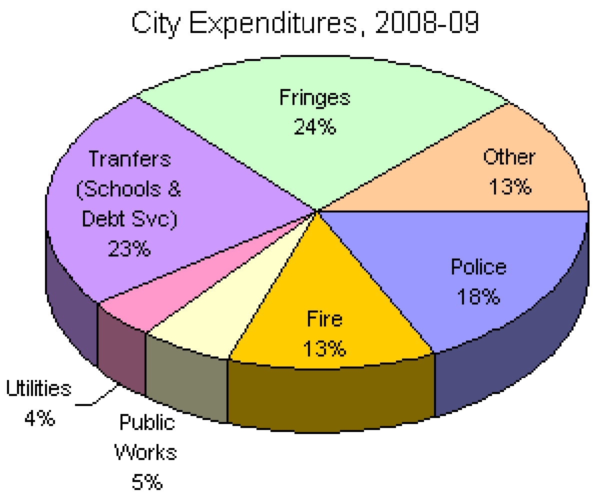
Review of the Approved Four-Year Financial Plan for Fiscal Years Ending 2009-2012

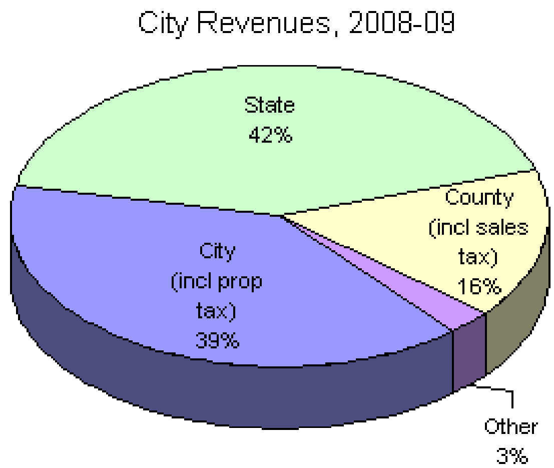
City of Buffalo Four-Year Financial Plan

The City's four-year plan provides for spending of $435.0 million in 2008-09, growing to $468.7 million in 2011-12, an increase of 7.7 percent over four years. The plan contains no projected budget gaps over the period, as projected annual revenue growth equals projected annual expenditure growth, except for fiscal year 2010-11, when the City projects a $6.1 million surplus. The budget is balanced in 2008-09, 2009-10 and 2011-12 the final year of the plan

Summary of 2008-09 Budget

The 2008-09 budget provides for $435.0 million in spending. This total includes $101.1 million in transfers to both the School District ($70.3 million) and the Capital Debt Reserve ($30.8 million), both of which are funded out of the property tax levy. The $435.0 million figure represents a 4.0 percent increase over the 2007-08 adopted budget of $418.3 million and less than 1% growth over the current year forecast, which includes budget modifications approved throughout the 2007-2008 fiscal year. The following charts show a breakdown of the City's total 2008-09 budget by major spending and revenue category:





When transfers are excluded from the total, the City's spending on its own General Fund services is $333.9 million, an increase of 4.1 percent over the previous year. While this report focuses on the "all funds" City budget including transfers, it is noteworthy to point out the significant role that State aid plays in funding the City's own services. Of the $333.9 million figure, $181.5 million is attributable to State revenues, including $155.1 million in unrestricted State aid. In other words, unrestricted State aid will fund 46.5 percent of the City's own services in 2008-09. By the final year of the plan, unrestricted State aid would account for $201.6 million, or 55.8 percent of the City's own services.

City Revenues ($ in million)	FYE 2004 Actual	FYE 2005 Actual	FYE 2006 Actual	FYE 2007 Actual	FYE 2008 Budget	FYE 2009 Budget
State	126.6	143.2	146.8	157.4	169.0	181.5
City	173.8	174.8	177.5	178.4	172.1	171.4
County (sales tax)	60.5	58.6	59.9	69.3	65.5	70.7
Federal	6.9	1.8	1	0.6	2.5	2.3
Other	3.7	3.5	3.7	3.8	3.4	3.4
Deficit Borrowing/Fund Bal	7.8	19.1	0	0	0	0
Transfers In	5.5	6.9	5.8	5.8	5.8	5.8
Total	**384.8**	**407.9**	**394.7**	**415.3**	**418.3**	**435.0**

Continuing a trend, unrestricted State aid remains the City's primary growth revenue. The $155.1 million in unrestricted aid budgeted for 2008-09 is 51 percent higher than the $102.7 million it received in 2003-04, the year BFSA was created. Below, the table shows the amount of annual AIM that the City received each year since the inception of BFSA.

Total AIM ($ in millions)	FYE 2004 Actuals	FYE 2005 Actual	FYE 2006 Actual	FYE 2007 Actual	FYE 2008 Budget	FYE 2009 Budget
AIM	102.7	102.7	115.9	129.5	142.3	155.1
BFSA Held	0.0	0.0	0.0	12.7	12.8	16.6
Total	**102.7**	**102.7**	**115.9**	**142.2**	**155.1**	**171.7**

The City's 2008-09 budget does not include several other sources of State funding that will be made available during the budget year and which will provide significant additional resources: $16.6 million in "Aid and Incentives to Municipalities" funding which the City has set aside, $30 million from a "City-by-City" Fund for future economic development and revitalization purposes, $11.7 million in Efficiency Incentive Grants, and $10 million in State "Spin-up" funding. While State aid continues to grow at a significant rate, the other major City revenue items have been relatively flat. The property tax levy is being lowered for 2008-09, after remaining unchanged for four straight years. Sales tax growth has been slow over the past few years, although 2008 will prove much stronger as a result of the higher Canadian exchange rate which has increased retail sales in WNY. The unusual growth in FY 2008 has been ignored for budget purposes and sales tax revenue has been budgeted at 2.6 percent over 2007 actual levels.

The budget lowers the City's property tax levy to $143.6 from $146.3 million. The levy is split between the City ($73.3 million) and the School District ($70.3 million). Modest growth in assessed values has increased the City's constitutional property taxing margin to $31.0 million, up from a low of $12.4

million in 2003-04. At present, the City is using 82 percent of its constitutional taxing capacity.

City Expenditures ($ in million)	FYE 2004 Actual	FYE 2005 Actual	FYE 2006 Actual	FYE 2007 Actual	FYE 2008 Adopted	FYE 2009 Budget
Fringe Benefits	82.4	85.1	87.8	90.3	101.9	104.8
Police	69.8	64.4	64.1	66.9	68.0	77.3
Fire	53.0	50.9	51.3	50.3	52.0	54.8
Public Works	21.8	17.8	17.4	22.4	24.1	23.2
Utilities	12.3	13.7	15.1	19.3	17.1	18.9
Transfers Out (Schools/Debt)	99.1	107.5	100.7	102.1	97.6	101.1
All Other	39.5	45.8	41.0	51.4	58.3	54.9
Total	**377.9**	**385.2**	**377.4**	**393.6**	**418.3**	**435.0**

On the spending side, transfers remain the largest category, aside from fringe benefits. The $104.8 million budgeted for fringes is an increase of $2.9 million over the 2007-08 budget, with increases in health insurance premiums being partially offset by year-over-year decreases in pension costs. Health insurance costs for both active employees and retirees are budgeted at $60.2 million, an increase of approximately $3.9 million from the prior year's adopted budget, while pension payments total $23.6 million and the remaining $18.3 million is comprised of smaller items such as FICA, Medicare and dental insurance.

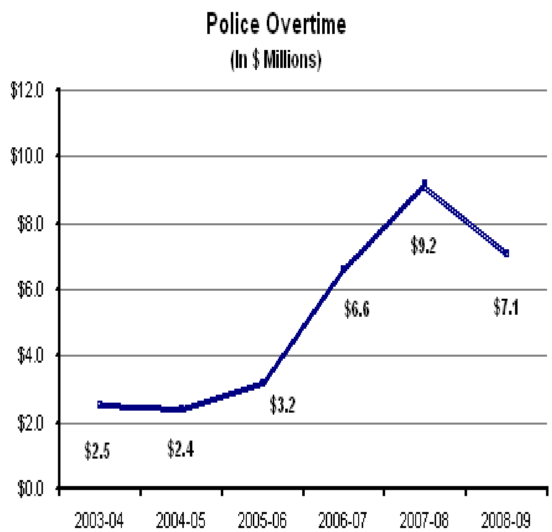
The budget for police is increased by $9.3 million over the previous year, to reflect a significant increase in overtime experienced in 2007-08, as well as additional personnel. A new class of 40 officers is scheduled to begin in July. Of the $9.3 million, $5.4 million is for the 3.4 percent salary increase, $2 million for the increase in overtime, and $1.9 million for the new class that will begin in July.

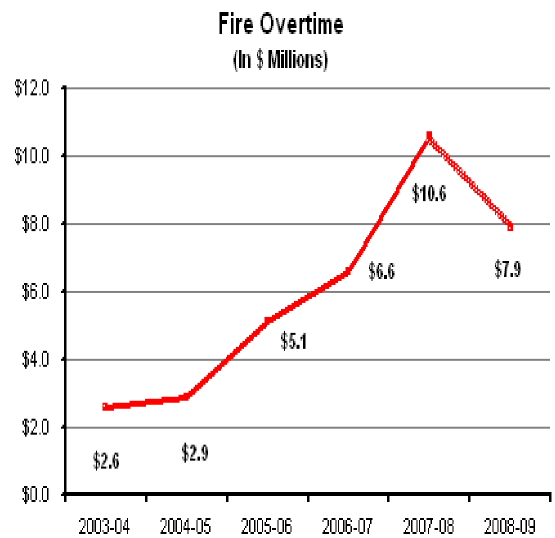
Overtime is a concern. Even with the added personnel being brought on board, it appears the City is aggressively budgeting the potential costs. The City has decreased its projections from the current year-end projections by $2.1 million or 4.6 percent. As of the 3rd Quarter ending, police overtime is projected to end the year at $9.2 million, which is $4.1 million more than what was originally budgeted. In the proposed budget personal service is 93.7 percent of the budget (the remaining 6.3 percent is for supplies, vehicles, and capital outlay); overtime makes up 9.2 percent of the total proposed budget. The 3rd Quarter Report shows personal service relatively flat at 93.6 percent with an all other of 6.4 percent. The significant change is in overtime, which is projected to be 13.8 percent of the total budget.

For similar reasons, the budget for fire is up $3 million from the prior year. A mid-year budget modification for the 5.55 percent arbitration award is valued at $3.6

million, while savings in vacancies and other areas limit the year-to-year impact. Personnel are expected to increase as the City is planning on a new fire class of 35 in January of 2009. As with the police department, it appears that the City is being very aggressive in budgeting fire overtime. Per the 3rd Quarter Report, overtime in the fire department has exceeded the adopted budget amount by $4 million, totaling $10.6 million, compared to the $6.6 million budgeted. In the 2008-09 budget the City projects overtime at $7.9 million which is $2.7 million less (a decrease of 25 percent) than current year-end projections. Even assuming that the additional personnel being hired will reduce overtime expenditures, the current projections are speculative and should be monitored closely.

The charts below show historical actual overtime costs, as well as projections for FYE 2008 and 2009.





Public works spending is down $.9 million over the previous year's budget and flat from fiscal year 08 forecasts. Declines are being driven mainly by personnel, utilities, and capital outlay in the Division of Buildings, as well as decreases in capital outlay in the Division of Street Sanitation.

Utility costs are up slightly over the previous year to reflect actual experience in 2006-07, and transfers are up by $3.5 million to reflect higher capital debt service to the City ($1.5 million). The School District transfer remained unchanged and there is an increase to the Enterprise Refuse Fund ($2.0 million). The category of "all other" spending is down $3.4 million as a result of a series of departmental decreases, the largest of which are: Assessments, $0.4 million; and City Clerk down $0.08 million with smaller decreases set to occur in other departments as well.

City Workforce Size	FYE 2007 Budget	FYE 2008 Budget	Yr-to-Yr Change
Police (non-uniform)	169	176	+7
Law	30	31	+1
Public Works	298	296	-2
Mayor & Executive	45	52	+7
Permits & Inspections	93	93	n/c
Audit & Control	45	45	n/c
Parking	44	45	+1
Fire (non-uniform)	44	45	+1
Police (uniform) *	780	837	+57
Assessment & Taxation	32	32	n/c
Management Info Systems	31	32	+1
Administration & Finance	66	66	n/c
Human Resources	21	21	n/c
City Clerk	17	16	-1
City Council	36	39	+3
Community Services	57	57	n/c
Fire (uniform) **	710	718	+8
Total	**2,518**	**2,601**	**+83**

* The budget provides for the hiring of 40 additional police officers to augment the current force from adopted 07-08 levels. The figures shown in this table reflect the net impact of those new hires balanced against retirements that occurred throughout the 2007-08 fiscal year. As discussed later in the report, the out-years of the financial plan also provide for the hiring of additional uniformed police personnel.

** Uniformed fire positions are budgeted up by 8 reflecting retirements that occurred throughout the 2007-08 fiscal year, while a new class of 35 is assumed in the 2008-09 fiscal year. As discussed later in the report, the out-years of the financial plan provide for the hiring of additional uniformed fire personnel.

In general, staff levels are up in the new budget. Whereas in 2007-08 the City budgeted 2,518 positions and ran a high number of vacancies (114 as of the third quarter), the 2008-09 budget provides for a total of 2,601 positions (an increase of 197 from employment levels at 3/31/08) as shown in the following table:

Summary of Financial Plan through 2011-12

The City's financial plan for fiscal years 2009-10, 2010-11 and 2011-12 shows no projected budget gaps, as annual revenue growth exceeds projected annual expenditure growth. The financial plan projects the following: balanced in 2009-10, a $6.14 million surplus in 2010-11, and balanced in 2011-12, the final year of the plan.

City Financial Plan ($ in million)	FYE 2009 Budget	FYE 2010 Projected	FYE 2011 Projected	FYE 2012 Projected	2009-12 Change
Revenues	435.01	446.67	463.29	468.67	+ 7.7%
Expenditures	435.01	446.67	457.16	468.67	+ 7.7%
Surplus / (Deficit)	**–**	**(0.00)**	**6.14**	**(0.00)**	

Revenues are projected to grow by approximately 3 percent each year, driven mainly by increased State aid. With the exception of sales tax (which is projected to grow 2.6 percent annually over 2007 actuals) and State aid, every other revenue category in the City's financial plan is assumed to remain flat for the four years. State revenues are assumed to grow to $204.5 million by 2011-12, including $184.2 million of unrestricted aid, from $165.0 million in 2007-08. The City has built its projections of State aid on the Governor's 2007 Executive Budget which pledged, in addition to a $12.8 million increase in Aid and Incentives to Municipalities funding for the City's 2007-08 fiscal year, an additional $44 million in recurring aid over the next three City fiscal years.

City Revenues ($ in million)	FYE 2009 Budget	FYE 2010 Projected	FYE 2011 Projected	FYE 2012 Projected	2009-12 Change
Taxes	$154.8	$154.8	$154.9	$154.9	+0.1%
Non-Property Tax	$13.3	$13.3	$13.3	$13.3	-
Licenses & Permits	$3.1	$3.1	$3.1	$3.1	-
Intergovernmental	$230.9	$242.5	$259.1	$264.4	+14.5%
Service Charges	$9.4	$9.4	$9.4	$9.4	-
Fines	$7.0	$7.0	$7.0	$7.0	-
Interest	$3.2	$3.2	$3.2	$3.2	-
Miscellaneous	$7.5	$7.5	$7.5	$7.5	-
Transfers In	$5.8	$5.8	$5.8	$5.8	-
Total	**$435.01**	**$446.67**	**$463.29**	**$468.67**	**+7.74%**

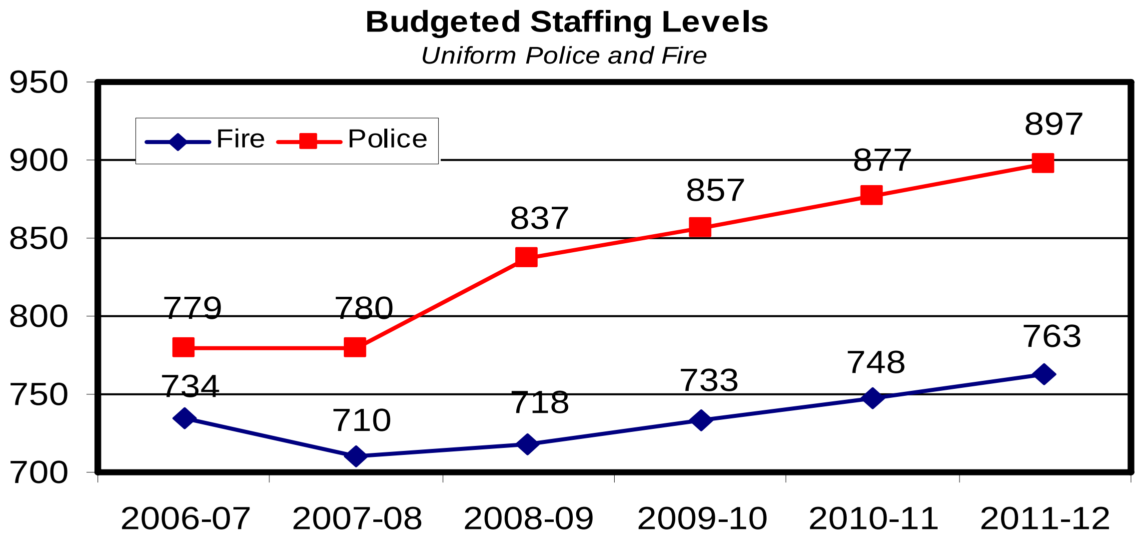
The City has conservatively projected its unrestricted State aid in the financial plan. As shown in the following table, the amount of unrestricted aid built into the plan is lagged by one year, meaning that pledged aid increases to the City are underestimated in each fiscal year of the financial plan. If pledged increases in State aid continue through 2011-12, the City will have significant additional resources in each year.

Unrestricted State Aid ($ in million)	FYE 2009	FYE 2010	FYE 2011	FYE 2012
Amount in City Financial Plan	155.1	169.0	184.2	184.2
Use of prior year(s) AIM	4.6	0.5	-	3.4
Projected Aid to be Provided	171.7	186.9	201.6	201.6
BFSA Held	**16.6**	**17.9**	**17.4**	**17.4**

On the expenditure side of the ledger, the City is projecting 2.7 percent growth in 2009-10, 2.3 percent in 2010-11 and 2.5 percent in 2011-12. The largest growth over the period continues to be concentrated in fringe benefits, which are projected to increase from $104.8 million to $125.6 million over the four years of the plan (19.8 percent). Utilities are projected to grow by nearly 16 percent over the four years, reflecting trends in natural gas and electricity prices.

City Expenditures ($ in million)	FYE 2009 Budget	FYE 2010 Projected	FYE 2011 Projected	FYE 2012 Projected	2009-12 Change
Fringe Benefits	104.8	111.2	118.0	125.6	+19.85%
Police	77.3	80.3	81.7	83.2	+7.63%
Fire	54.8	55.5	56.3	57.1	+4.20%
Public Works	23.2	23.5	23.7	23.8	+2.59%
Utilities	18.9	19.9	20.8	21.9	+15.87%
Transfers Out (Schools/Debt)	101.1	101.1	101.1	101.1	–
All Other	54.9	55.2	55.5	56	+1.99%
Total	**435.01**	**446.7**	**457.1**	**468.7**	**+7.74%**

Most departmental budgets are projected to remain fairly flat, except for police and fire. The Police Department budget is projected to grow from $77.3 million in 2008-09 to $83.2 million in 2011-12. The increases for police include one additional salary increase of 3.4 percent in 2009-2010 as well as additional personnel. The Fire Department will increase from $54.8 million to $57.1 million over the same period. In both cases, these projected increases reflect the impact of plans to grow the City's public safety staffing in the coming years:



Note: Budgeted staffing levels in 2007-08 do not reflect the actual size of the force as of the end of the 2007-08 fiscal year. Due to retirements, the City was running vacancies in both the Police and Fire Departments. As of March 31, 2008, there were 799 filled positions (reflecting additional uniform personnel added during FY) in uniformed police (i.e. 19 vacancies) and 695 in uniformed fire (i.e. 15 vacancies). The financial plan would again add police officers in 2008-09, and firefighters beginning in 2008-09. The budgeted numbers for police and fire include IOD personnel, which typically average approximately 75 for fire and 100 for police at any given time.

Except for the increases to uniformed police and fire personnel, staffing levels in every other City department will remain flat (at the 2008-09 level) through the financial plan. Total staffing in the City's General Fund will be 2,601 in 2008-09, growing to 2,636 in 2009-10, 2,671 in 2010-11 and 2,706 in 2011-12.

Risks

Any multi-year financial plan contains some risk and opportunities, and the City's is no different. While the plan is balanced, it does contain some degree of speculation in the following areas:

- The financial plan projects continued growth in State aid. The assumed rate of growth is within reason, given recent history, but will require annual action in each State budget through 2011-12 and is not a given considering the financial turmoil in New York State. The City has minimized the risk of reductions in State Aid by lagging AIM funds by one year.

- The financial plan assumes that $5.9 million in additional sales tax sharing, first provided in January 2008, will continue each year. This revenue is subject to State legislative action to continue Erie County's one-cent additional sales tax, from which the $5.9 million is provided. We understand that the County has budgeted a continuation of the penny share.

- The financial plan projects fringe benefit costs to grow by approximately 6 percent each year from 2008-09 through 2011-12. The addition of new uniformed police officers and firefighters (with the higher cost benefits) could drive this total higher Staff levels over the four-year plan will rise to their highest levels since 2003, which will also impact benefit expenditures. Staff costs continue to rise and now encumber 81 percent of the City's budget.

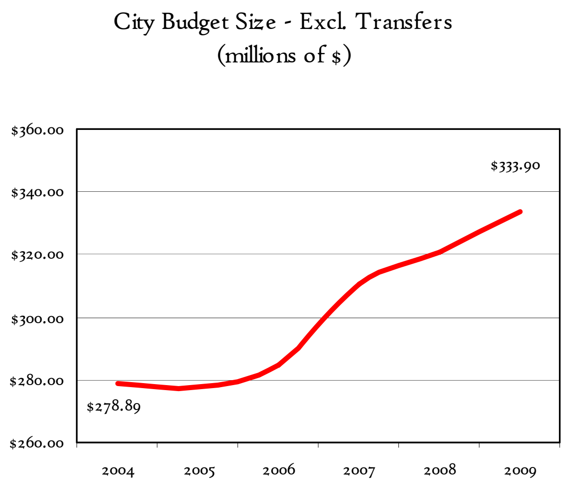
- Since the wage freeze was lifted, outstanding lawsuits challenging the legality of limiting step increases to one step are still ongoing. Legal issues could drive the City's wage obligation higher than what is currently contained in the financial plan.

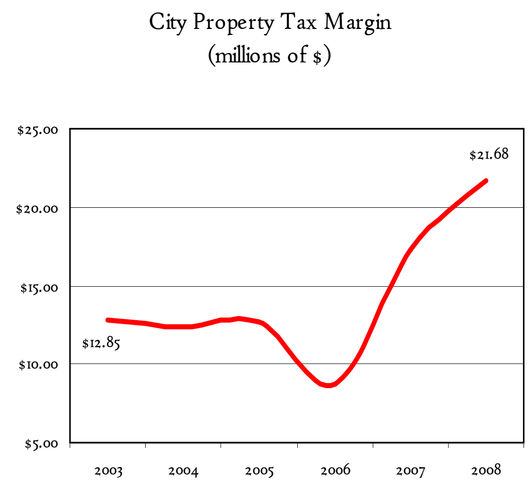
- The City has not entered into collective bargaining agreements for major employee groups in a number of years and will need to use significant resources to fund new agreements. No provisions have been made in the current budget for salary increases other than those already scheduled for police and fire. Given that revenues are fully utilized for current budget and plan needs, cost increases to fund new agreements will have to come from new funding over time.

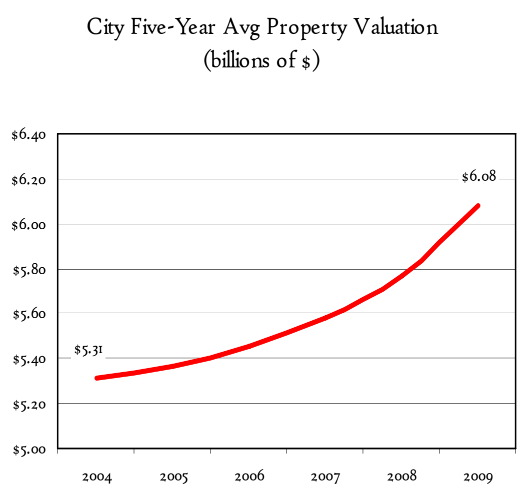
- The City may be underestimating their Police & Fire overtime costs for 2008-09; even with increased personnel joining both forces next year. The amount of funds budgeted in 2008-09 are significantly below the amounts that they are expected to disburse for the current fiscal year, based on the City's 3rd Quarter Year End projections. The 2008-09 overtime budgets, for both departments, are approximately 23 percent lower than the current year-end projections.

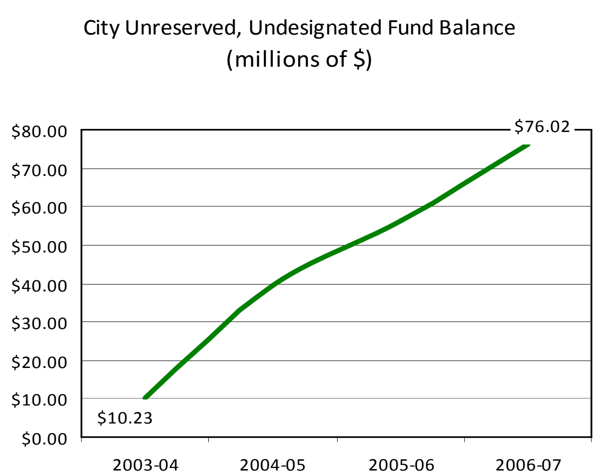
- OPEB liabilities, estimated at about $945.6 million for the City, with an annual required contribution of $79.5 million, will need consideration going forward. Despite the fact that funding is currently not required, its impact will start to be felt in the next few years and a course of action to deal with this issue will need to be contemplated.

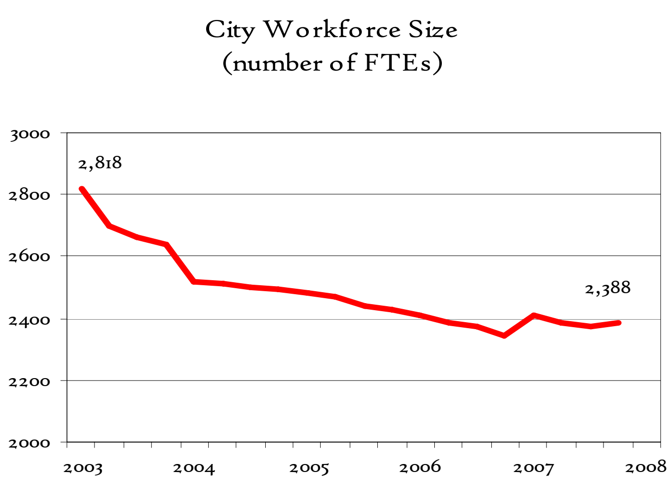
These risks notwithstanding, the City's conservative budgeting of anticipated State revenues in each year of the financial plan provides insurance against these risks, as does the fund balance the City has built up since 2003.


City Budget Size - Excl. Transfers
(millions of $)
$360.00
$340.00
$320.00
$300.00
$280.00
$260.00
$333.90
$278.89
2004
2005
2006
2007
2008
2009


City Property Tax Margin
(millions of $)
$25.00
$20.00
$15.00
$10.00
$5.00
$21.68
$12.85
2003
2004
2005
2006
2007
2008


City Five-Year Avg Property Valuation
(billions of $)
$6.40
$6.20
$6.00
$5.80
$5.60
$5.40
$5.20
$5.00
$6.08
$5.31
2004
2005
2006
2007
2008
2009


City Unreserved, Undesignated Fund Balance
(millions of $)
$80.00
$70.00
$60.00
$50.00
$40.00
$30.00
$20.00
$10.00
$0.00
$76.02
$10.23
2003-04
2004-05
2005-06
2006-07


City Workforce Size
(number of FTEs)
3000
2800
2600
2400
2200
2000
2,818
2,388
2003
2004
2005
2006
2007
2008

Buffalo Public Schools Four-Year Financial Plan

The School District has provided BFSA with a revision of the plan originally filed on May 1. The revised financial plan provides for spending of $874.4 million in 2008-09, growing to over $1 billion in 2011-12, an increase of 15.2 percent over four years. Unlike the City, the School District's portion of the financial plan grapples with baseline budget gaps of $15.9 million in 2009-2010, $18.4 million in 2010-11 and $23.2 million in 2011-12, resulting in a compounded baseline budget gap of $57.4 million. The yearly gaps have increased significantly compared to the 2007-2008 financial plan, and reflect both increased State aid and management steps taken to control costs within the District, as well as the impact that a loss in the steps litigation would have on the plan.

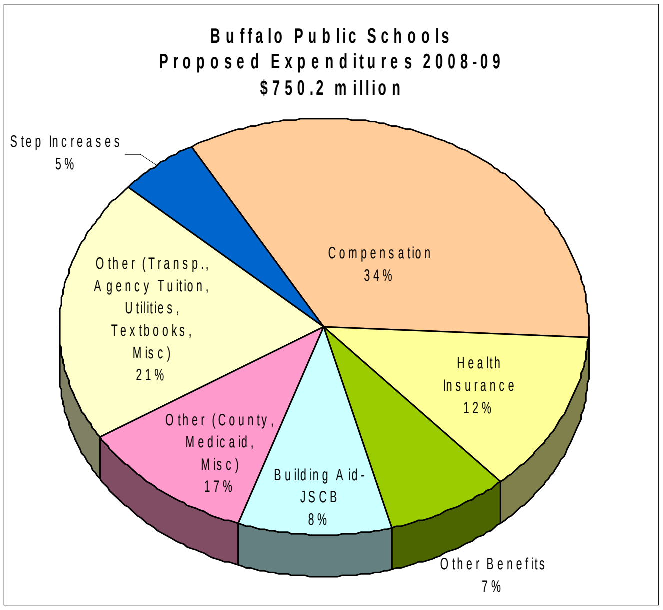
The earlier version of the financial plan identified steps to close the baseline gaps in each year. The revised plan includes the cost to the District of a loss in the step litigation during 2008-09, which would be in excess of $37 million.

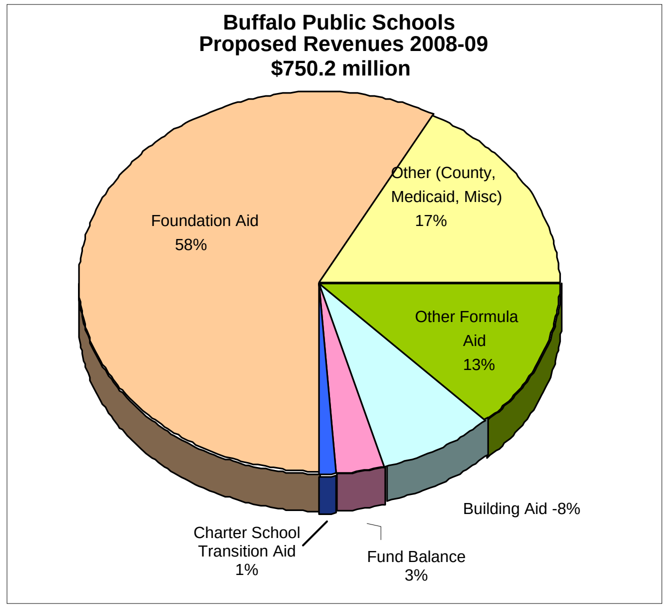
The financial plan does not include the current proposal being studied by the Board of Education of bringing all hourly employees in line with the City's Living Wage Ordinance. This group of employees is made up of substitute teachers' aides, bus aides, food service workers, school lunch cooks and teachers aides, totaling approximately 1,415 employees and comprising 24.9 percent of the workforce. The fiscal impact of this action on the budget and each year of the plan would be $4 million per year. Out-year increases would be tied to the rate of inflation, and would be minimal compared to the first year impact of $4 million. If approved, the school district would have to bring all hourly employees up from their prevailing wages, which average $8.33/hour, to the Living Wage Rate of $10.88/hour for employees which have health insurance and $11.11/hour for those who do not have health insurance as of 1/1/08.

Summary of 2008-09 Budget

The School District's 2008-09 budget contains $874.4 million in spending: $750.2 million in the General Fund, $102.5 million in the Special Projects/Grants Fund and $21.7 million in the Food Service Fund. The overall District budget is 9.8 percent or $77.9 million greater than the 2007-08 *adopted* budget, while the General Fund portion alone is 11.6 percent higher, an increase of $76.7 million. These increases include an additional $37 million that is being budgeted as a risk retention fund that would be utilized to pay for potential step increases.

The following charts show a breakdown of the School District's total 2008-09 General Fund budget by major spending and revenue category:





State aid to the District continues to grow significantly; the vast majority of the total revenue increase over the previous year is funded by State aid. State aid to the District is up more than $51.1 million from 2007-08, funding most of the $76.7 million budget-to-budget increase. An additional $25 million is being drawn down from Fund Balance as a set aside reserve for the potential pay-out of back steps to District employees.

School District Revenues ($ in million)	FYE 2004 Actual	FYE 2005 Actual	FYE 2006 Actual	FYE 2007 Actual	FYE 2008 Budget	FYE 2009 Budget
Local Sources						
Property Tax	68.7	68.8	68.7	70.8	70.3	70.3
Sales Tax	30.1	31.1	32.1	33.2	33.0	34.8
Subtotal	*98.8*	*99.9*	*100.8*	*104.0*	*103.3*	*105.1*
State Aid (Gen Fund)	342.7	382.7	408.7	456.7	550.6	601.7
Federal Medicaid	6.2	5.7	5.3	1.4	4.4	2.0
Other General Fund	12.6	7.8	10.7	14.0	15.2	16.4
Grants	155.7	154.5	153.5	157.2	102.2	102.5
Food Service	19.3	19.8	20.5	20.7	20.7	21.7
Fund Balance	**-**	**-**	**-**	**-**	**-**	**25.0**
Total	**635.3**	**670.4**	**699.5**	**754.0**	**796.4**	**874.4**

Aside from State aid, all other major revenue sources in the District's budget are expected to be relatively flat. The City's property tax contribution is unchanged at $70.3 million for the 2008-09 fiscal year. Sales tax is budgeted up $1.8 million

(4.5 percent) from the prior budget but reflects minor growth from current year trends of receipts which are expected to be over $34 million. Given the current economic trends, this projection might prove optimistic. The out-years are not as aggressive in their projections and are in line with historical growth rates of 2 percent. Federal Medicaid reimbursements are down by $2.2 million, as the Federal Government will no longer reimburse districts for certain services that they once did. Other General Fund revenues – including interest earnings, tuition and local share contributions for the Joint Schools Construction Board – are budgeted up a combined $1.2 million. The Food Service Fund and Grants show minimal growth and are increased by $1 million and $.3 million respectively, on a year-to-year basis. At this time the District would resort to using $25 million in Fund Balance if they were to lose current litigation concerning back step-increases for teachers.

School District Expenditures ($ in million)	FYE 2004 Actual	FYE 2005 Actual	FYE 2006 Actual	FYE 2007 Actual	FYE 2008 Budget	FYE 2009 Budget
General Fund						
Employee Compensation*	206.5	193.3	185.8	188.7	248.4	256.8
Fringe Benefits*	87.6	107.3	101.9	106.5	145.8	149.2
Transportation	28.6	31.9	34.1	35.4	36.1	41.4
Utilities	10.7	12.1	18.2	14.3	15.3	18.8
Tuition	22.0	24.2	24.6	26.8	29.0	29.5
Custodial Contracts	15.3	15.5	15.7	16.1	16.5	17.0
Charter Schools	26.4	40.1	50.2	56.6	65.0	71.7
Debt Service (incl JSCB)	28.7	37.6	47.8	59.1	60.2	81.7
Other	32.8	31.6	34.8	41.2	57.2	47.1
Step Increases	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**37.0**
Subtotal	458.6	493.6	513.1	544.7	673.5	750.2
Special Projects/Grant Fund	155.7	154.5	153.5	157.2	102.2	102.5
Food Service Fund	19.3	19.2	19.4	20.7	20.7	21.7
Total	**633.6**	**667.3**	**686.0**	**722.6**	**796.4**	**874.4**

*Employee Compensation & Fringe Benefits does not include an additional $37 million of potential additional costs related to ongoing litigation concerning the wage-freeze and lost steps during the time of the wage-freeze.

On the spending side, (excluding the step increases) the category with the largest increase is General Fund Debt Service, $21.5 million. The increase is attributed to Phase III of the JSCB project, which is projected to cost $19.7 million in debt related costs in the upcoming fiscal year. The second largest area of growth in the General Fund is employee compensation, $8.4 million. FTE's increase by 137 over the 2007-08 adopted budget, including 125 teachers.

Charter school payments are the third largest area of growth, increasing from $65 million to $71.7 million, an increase of $6.7 million, followed by transportation costs increasing by $5.3 million and utilities increasing by $3.5 million reflecting the increasing cost of petroleum based products. The last significant area of growth is in fringe benefits, which are increasing by $3.4 million over the previous budget and $12.9 million over forecast for the current year ending June 30, 2008.

In 2005-06, the District implemented a single carrier health insurance initiative to save significant dollars. Despite ongoing union challenges to the initiative, and having included multiple carriers in its 2007-2008 budget, the District maintained the single carrier program for its entire 2006-07 and 2007-08 fiscal years. However, the District has lost its most recent appeal and will no longer benefit from the related savings in the 2008-09 budget, since the District is forced to shift back to a multiple carrier offering. The impact of returning to a multi-carrier coverage is an additional $4 million in 2008-09. It's worth noting that the District's 07- 08 budget included multiple carrier costs for part of the fiscal year, which explains why the annual increase for fringe benefits is not as dramatic as when compared to the forecasted actuals. As of September 1, 2008, preliminary actuals for health insurance costs are projected at $74.5 million (reflecting a full-years savings from the single-carrier) rising to $93.2 million in 2008-09; an increase of $18.7 million or 25.1 percent.

On an All Funds basis staffing levels are up slightly in the 2008-09 District budget. A total of 5,597 positions are provided for across all funds (4,648 in the General Fund, 886 in the Grants Fund and 63 in the Food Service Fund), an increase of 137 positions over the previous year's budget.

School District Workforce Size	FYE 2008 Budget	FYE 2009 Budget	Yr-to-Yr Change	FYE * 2008 3rd Qrt	FYE 2009 Budget	Yr-to-Yr Change
Teachers	3,446	3,571	+125	3,515	3,571	+56
Administrators	198	202	+4	195	202	+7
White Collar / Clerical	555	551	-4	494	551	+57
Teacher Aides	956	972	+16	956	972	+16
Trades	48	48	n/c	46	48	+2
Blue Collar	155	153	-2	152	153	+1
Engineers	68	68	n/c	67	68	+1
Exempt / Board	34	32	-2	30	32	+2
Total	5,460	5,597	+137	5,455	5,597	+142

FYE 2008—3rd Quarter actuals compared to FYE 2009 Budget

Summary of Financial Plan through 2011-12

The District's financial plan, while balanced in 2008-09, shows baseline budget gaps for fiscal years 2009-10, 2010-11 and 2011-12. However, largely as a result of significant State aid growth and pledged increases in State support over the next four years, those gaps are smaller and more manageable than those in the plans reviewed in the years between 2003-2006. A significant factor in the current increase of the out-year gaps is the inclusion in the budget of the potential step-increases the District would be required to pay out if they lose the current round of litigation. Compared to last year's financial plan, the cumulative GAP has increased from $33.9 million to $57.4 million, an overall increase of $23.5 million.

With the four-year cost of steps included in its projections and the elimination of savings from the single-carrier health insurance, the financial plan shows baseline budget shortfalls for the District of $15.9 million in 2009-10, $18.3 million in 2010-11 and $23.2 million in 2011-12. In order to achieve annual budget balance, the financial plan identifies specific but painful gap-closing actions the District would implement in each of those years, such as downsizing staff, closing school buildings and reducing certain vendor contract payments, supplies and programs. The District is also relying on its available fund balance to ensure budgetary balance through the financial plan.

School District Financial Plan ($ in million)	FYE 2009 Budget	FYE 2010 Projected	FYE 2011 Projected	FYE 2012 Projected	2009-12 Change
Revenues	750.2	766.9	815.4	859.1	14.5%
Expenditures	750.2	782.8	833.7	882.3	17.6%
Surplus / (Deficit)	-	15.9	18.3	23.2	

As noted above, this financial plan shows smaller projected gaps than in earlier fiscal plans. The primary reason is State aid. Not only did the 2008-09 State budget provide a large increase for the District's new budget, but it also provides minimum aid guarantees through 2011-12. This aid pledge enables the District to include specific increases in State revenues in its financial plan, helping to offset annual cost increases. The largest component of State aid to the District – Foundation Aid – is projected to grow from $433.1 million in the 2008-09 budget to $556.5 million in 2011-12-a-four-year increase of 28.5 percent.

Total revenues are projected to grow 4.7 to 5.5 percent each year, although aside from State aid, most revenues are projected to remain relatively flat. Natural growth in the county sales tax is projected at 2 percent each year, about equal to historical trends. The City's contribution to the District from the property tax levy is projected flat at $70.3 million throughout the financial plan. Revenues in the Grant Fund are flat-lined at $102.5 million through 2011-12, and Food Service Fund revenues are projected to grow on average 1.5 percent each year.

School District Revenues ($ in million)	FYE 2009 Budget	FYE 2010 Projected	FYE 2011 Projected	FYE 2012 Projected	2009-12 Change
Local Sources					
Property Tax	70.3	70.3	70.3	70.3	0.0%
Sales Tax	34.8	35.5	36.2	36.9	6.0%
Subtotal	105.1	105.8	106.5	107.2	2.0%
State Aid (Gen Fund)	601.7	642.0	689.5	732.4	21.7%
Federal Medicaid	2.0	2.0	2.0	2.0	0.0%
Other General Fund	16.4	17.1	17.4	17.5	6.7%
Fund Balance	25.0	0.0	0.0	0.0	-100.0%
Grants	102.5	102.5	102.5	102.5	0.0%
Food Service	21.7	22.0	22.4	22.7	4.6%
Total	874.4	891.4	940.3	984.3	12.57%

The School District's baseline expenditures, including the potential step increases, before gap-closing actions are implemented, grow by approximately 5 percent per year through the financial plan. Of the projected $133.1 million increase in baseline spending from 2008-09 to 2011-12, the largest component is employee and retiree health insurance premiums (estimated to be up $46.5 million or *49 percent* over the period and 73% over forecasts for fiscal year 2008). Pass-throughs to charter schools are also expected to grow over the period, from $71.7 million in 2008-09 to $103 million in 2011-12, in part reflecting the lifting of the statewide cap on the number of charter schools. Employee compensation is projected to increase by $16.8 million, while debt payments associated with JSCB projects are projected to increase by $8.2 million. Other notable areas of increase are in All Other fringe benefits which will increase by $3.3 million, followed by utilities at $3 million, tuition payments at $2.7 million and transportation costs increasing by $2.5 million. All other actions represent the remaining increase of $18.6 million.

School District Expenditures ($ in million)	FYE 2009 Budget	FYE 2010 Projected	FYE 2011 Projected	FYE 2012 Projected	2009-12 Change
General Fund					
Employee Compensation*	256.8	269.3	291.4	309.8	20.6%
Fringe Benefits	149.2	164.0	180.4	199.1	33.4%
Transportation	41.4	42.3	43.1	44.0	6.3%
Utilities	18.8	19.7	20.7	21.7	15.4%
Tuition	29.5	30.3	31.3	32.2	9.2%
Custodial Contracts	17.0	17.5	17.5	17.5	2.9%
Charter Schools	71.7	84.9	94.6	103.0	43.7%
Debt Service (incl JSCB)	81.7	89.5	89.1	88.9	8.8%
Other	47.1	46.8	47.2	47.6	1.1%
Step Increases	**37.0**	**18.5**	**18.5**	**18.5**	
Subtotal	750.2	782.8	833.8	882.3	17.6%
Special Projects/ Grant Fund	102.5	102.5	102.5	102.5	0.0%
Food Service Fund	21.7	22.0	22.4	22.7	4.6%
Total	874.4	907.3	958.7	1,007.5	15.2%

*Includes Contract for Excellence Set Aside

In order to close its projected out-year budget shortfalls ($15.9 million in 2009-10, $18.3 million in 2010-11 and $23.2 million in 2011-12), the District's financial plan contains a series of gap-closing measures:

Gap-Closing Actions	FYE 2010	FYE 2011	FYE 2012
Projected Gap:	(15.9)	(18.3)	(23.2)
		($ in millions)	
Eliminate Staff *Recurring savings produced through elimination of 50 positions in each out-year 2009-10, 2010-11 and 2010-11*	2.5	5.0	7.5
School Closings *Recurring savings produced through closing of 2 schools in 2009-10 and 1 schools in 2010-11*	2.0	3.0	3.0
Other Reductions to Close the Gap: *Options include additional staff reductions, program reductions including extra curricular activities, optional courses, contracted services and*	5.0	6.2	8.0

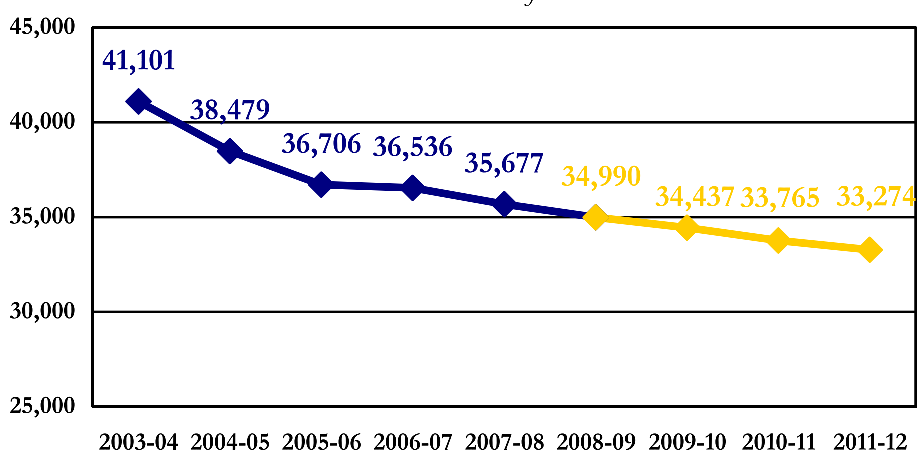
additional aid			
Revised GAP after Recurring Savings	(6.4)	(4.1)	(4.6)
Use of Fund Balance-- *($16.4M is the total unreserved, undesignated as of 6/30/07)*	6.4	4.1	4.6
Total Savings	15.9	18.3	23.2
Gap After Savings	0	0	0

The District's staffing level is projected to decrease in 2009-10, when it begins implementing staff cuts to balance its budget. A total of 5,597 staff (including 3,571 teachers) is included in the financial plan for 2008-09. With the out-year staff reductions, total personnel will fall to 5,547 in 2009-10, 5,497 in 2010-11 and 5,447 in 2011-12, for a total overall reduction of 150 positions.

District enrollment in the 2007-08 academic year was fairly stable to the previous year, down by 2.4 percent to 35,677. This was the second lowest year-to-year drop in enrollment the District has experienced since 1998. In fact, the enrollment decline had worsened in recent years, with an average yearly decline of 4.4 percent in the five preceding years. However, the lifting of the statewide cap for the number of charter schools has the potential to result in additional educational outlets in Buffalo, thereby further reducing the District's enrollment. The financial plan is based on the assumption that enrollment will decline by approximately 600 students per year, reaching 33,274 in 2011-12. Charter school enrollment is projected to grow at approximately 275 students a year from 6,534 in 2008-09 to 7,185 in 2011-12.

Buffalo Public School Enrollment

Based on District Projections



Risks

The District's financial plan, while balanced, is subject to several major risks:

- The four-year plan is balanced contingent not only on maintenance of State aid, but substantial annual growth. Although the State has provided for minimum multi-year Foundation Aid targets, State aid continues to be the District's only growth revenue of note.

- Outstanding lawsuits challenging the lifting of the wage freeze would, if successful, have a significant negative impact on the District. If the District were forced to pay multiple step increases to its employees, the first-year costs of this decision would increase spending by 4.6 percent or $37 million, and over the life of the financial plan District costs would grow by an additional $55.1 million, for a total increase of $92.1 million. Absent offsetting additional State aid, the result would be massive cuts which would dramatically undercut an already challenged School District.

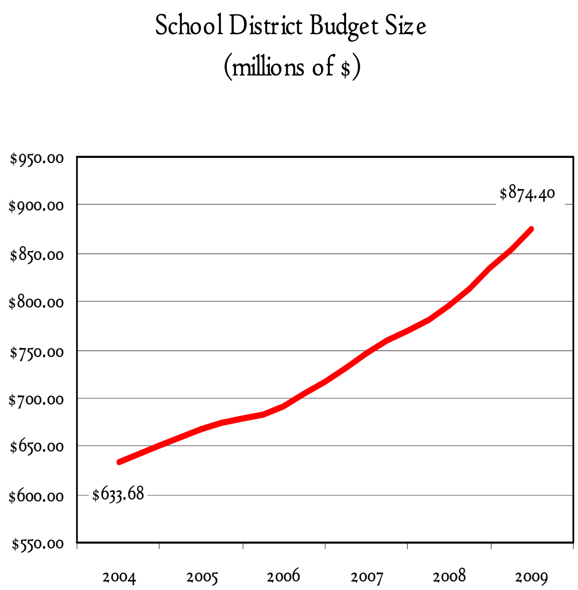
- In order to close its projected out-year budget gaps, the District would exhaust nearly all of its accumulated reserves, leaving it with virtually no unreserved fund balance to guard against budgetary uncertainty. Under the current financial plan, the District would draw down $25 million in unreserved, undesignated Fund Balance in 2008-09 to address the potential loss of litigation concerning frozen-step increases. The District is on track to finish the year with a surplus of $18.8 million in the current fiscal year which added to the previous year's fund balance would leave a balance of $6.2 million to fund any contingency. The District is also planning to draw down additional unreserved, designated funds to close the potential funding gap in the out-years, a weak source of funding since it continues to deplete its reserves. If the loss of the steps litigation were to become a reality the District would have to resort to further cuts in its operations.

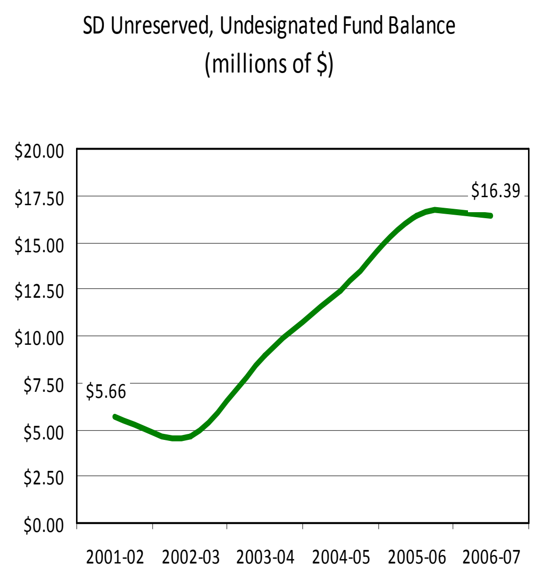
- As charter school enrollment continues to increase, the Districts monetary transfers to charter schools located in Buffalo continue to grow, stretching District resources further.

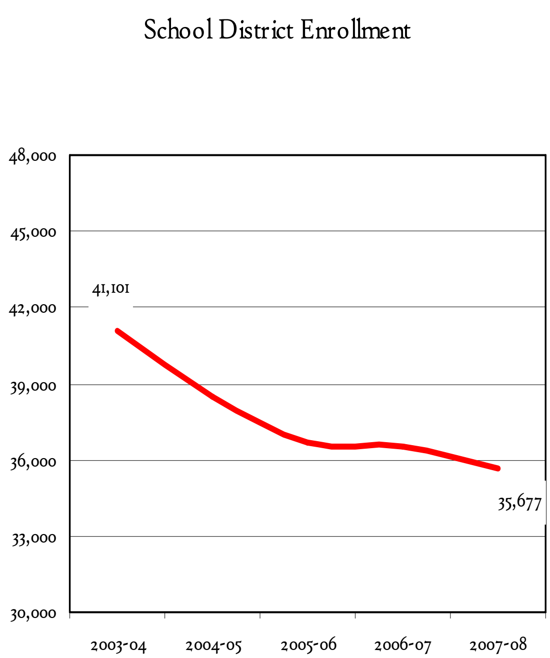
- Living Wage Ordinance—A proposal to adopt the City of Buffalo's Living Wage Ordinance is currently in the Board of Education's Finance and Operations Committee; at this time it has the full committees support and may be presented to the full Board of Education in the near future. Yearly impact would be an increase in salaries in the financial plan of $4 million.

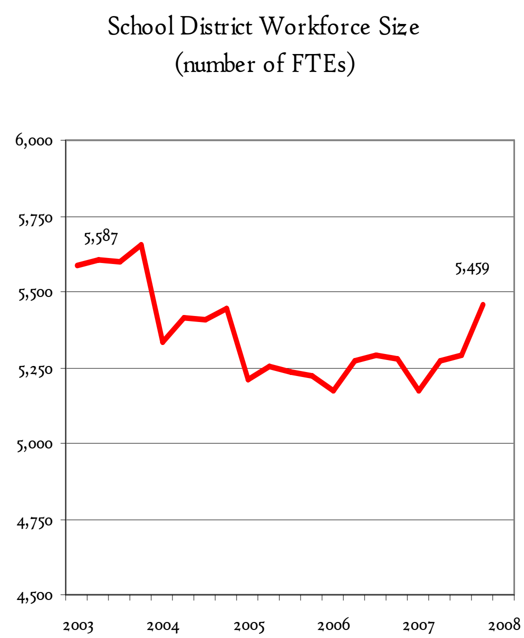
- OPEB – Liabilities will loom large over the period. Current assessments put the OPEB liability at $1.2 billion, with an expected annual required contribution of $115.3 million. Although currently there is no requirement to fund this liability, its impact on the district over time cannot be ignored as the costs are very significant and compound annually.

- The biggest risk could be that of a new collective bargaining agreement with the teacher's association, and other large unions operating within the school system. These costs if not carefully managed could severely darken the financial outlook for the school system and compromise fiscal stability well into the future.


School District Budget Size
(millions of $)
$950.00
$900.00
$850.00
$800.00
$750.00
$700.00
$650.00
$600.00
$550.00
$874.40
$633.68
2004
2005
2006
2007
2008
2009


SD Unreserved, Undesignated Fund Balance
(millions of $)
$20.00
$17.50
$15.00
$12.50
$10.00
$7.50
$5.00
$2.50
$0.00
$5.66
$16.39
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07


School District Enrollment
48,000
45,000
42,000
39,000
36,000
33,000
30,000
41,101
35,677
2003-04
2004-05
2005-06
2006-07
2007-08


School District Workforce Size
(number of FTEs)
6,000
5,750
5,500
5,250
5,000
4,750
4,500
5,587
5,459
2003
2004
2005
2006
2007
2008

Buffalo Urban Renewal Agency

The Buffalo Urban Renewal Agency (BURA) is a Public Benefit Corporation working within the City of Buffalo (COB) on planning, rehabilitation, remediation and redevelopment of both residential and commercial real property. BURA administers grant revenues awarded to the COB based on funding received from federal allocations. In addition to funding changes appropriated by the U.S. Congress, population is another determining factor, which largely influences federal revenues awarded to BURA. Typically, population changes are only factored into grant formulas after each decennial census, the next of which is set to occur in 2010.

The Buffalo Urban Renewal Agency's (BURA) four-year plan provides for funding of approximately $24.2 million in FY 2008-09, decreasing to approximately $23.8 million in FY 2011-12, a 1.8 percent decrease. The Community Development Block Grant (CDBG), HOME, Emergency Shelter Grants (ESG), Housing Opportunities for Persons With Aids (HOPWA) and Lead Grant programs are restricted in nature, meaning BURA recognizes revenue only upon expenditure on eligible activities. Funding for reserves is generally prohibited by grant regulations, and as such, BURA does not budget reserves in forecasts provided to BFSA.

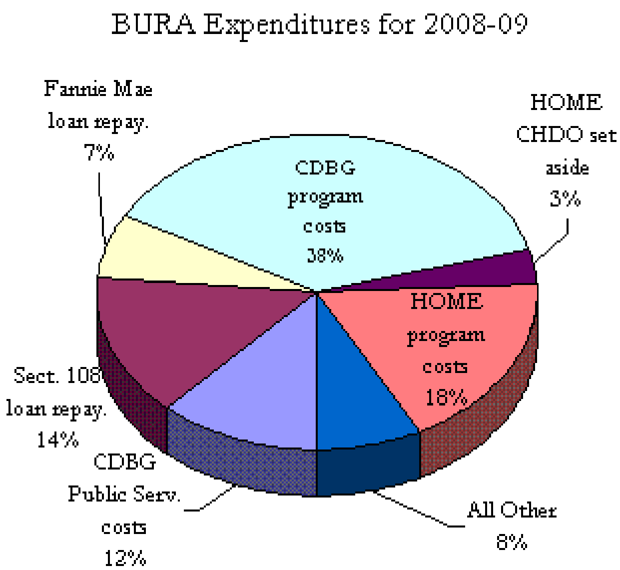
The primary financial issue for BURA continues to be the utilization of funding to alleviate deficits occurring prior to 2003, at a time when federal dollars have continued to decrease. BURA's older deficits remain, as a result of poor management practices, where more funding was expended on grant programs then budgeted by the agency in prior years. Progress to retire prior budget shortfalls is expected to continue going forward until the remaining $1,000,000 (as of March 31, 2008) is retired. Under this plan, dollars are recovered through a reduction in future grant expenditures without impacting BURA's ability to meet annual budget requirements.

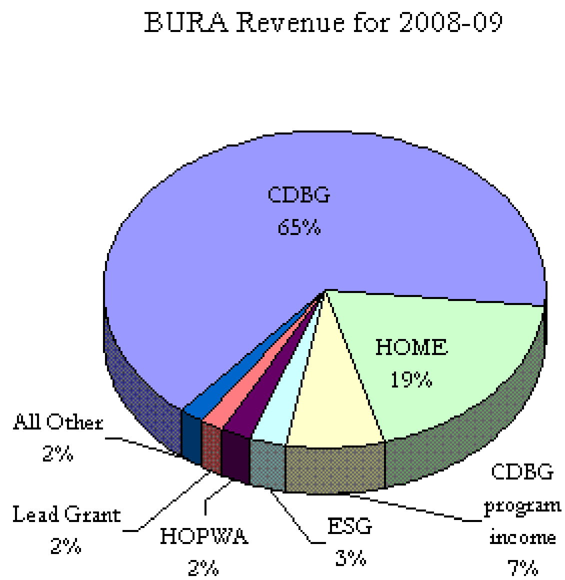
Summary of 2008-09 Budget

Of the $24.2 million in budgeted spending, $20.1 million is actually used for direct program related costs, while $4.1 million is used for administration and planning costs (17%). Of the $20.1 million, the six largest expenditure categories include: CDBG program costs (38%), HOME program costs (18%), Section 108 Loan repayments (14%), CDBG Public Service costs (12%) and Fannie Mae Loan repayments (7%). A variety of other programs and related costs make up the balance of BURA spending (8%).

BURA's revenues are comprised of mostly federal grant programs awarded to the City of Buffalo and passed through to BURA for administration. The City's Office of Strategic Planning (OSP) is responsible for the administration of

BURA's grant funds. The six largest revenue categories for BURA include: CDBG, HOME, CDBG program income, ESG, HOPWA and Lead Grant, while other smaller pots of monies round out BURA's revenue. The following charts show a breakdown of BURA's total 2008-09 Expenditures ($24.2 m) and Revenues ($24.2 m) by major categories:





While BURA is now on fairly solid financial footing, the overshadowing factors hanging in the balance continue to be the use of funds to pay off debts created by poor financial management prior to 2003 and the precarious nature of federal funding. In reviewing the table below, one will see that there is an overall downward trend in revenue, but funding levels have in fact fluctuated in recent years. The following sources of revenue are all down from the prior year CDBG ($0.7 m), Lead Grant ($0.4), New York Restoration Project ($1.0), CDBG program income ($0.2), HOME ($0.1) and loan recovery/sale of assets ($0.1).

In the out-years of the 4-year financial plan, BURA forecasts an increase in funding for 2009-10 ($1.0 m), with a decrease in funding in 2010-11 ($1.5), which is held flat into 2011-12, the final year of the financial plan. City of Buffalo funds largely accounts for the one-time up-tick in revenues for the 2009-10 fiscal year. It is worth noting that over the 2003-08 period, CDBG funding is down more than 20 percent and HOME funding is down more than 13 percent. If federal funding continues this downward trend for a prolonged period, BURA could potentially be faced with difficult management decisions related to agency operations and mission at some point.

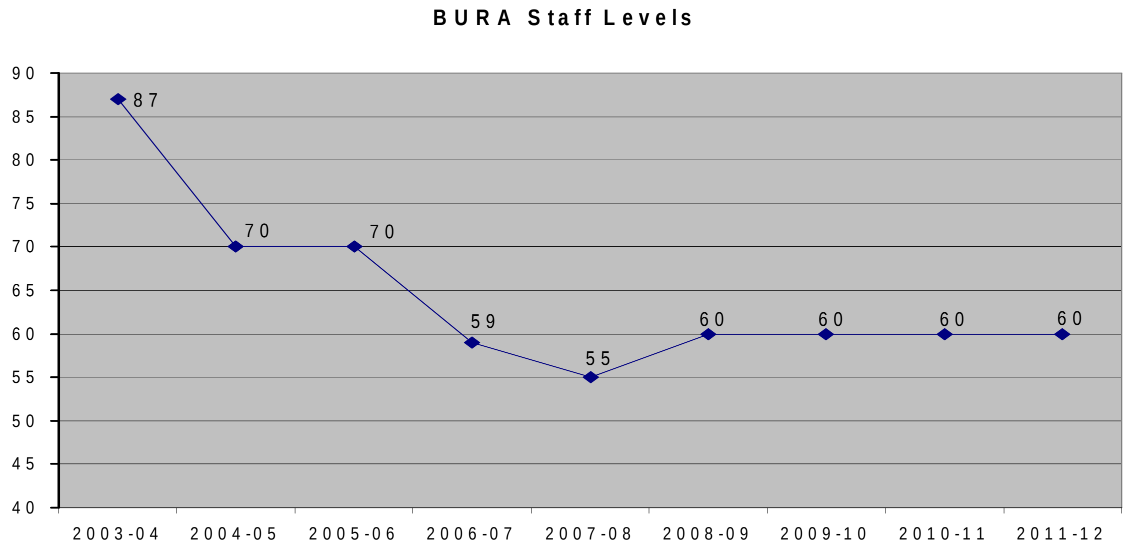
BURA Revenues ($ in million)	FY 05-06 Actual	FY 06-07 Budget	FY 07-08 Budget	FY 08-09 Budget	Change 07-08 to 08-09
CDBG	17.5	16.5	16.5	15.8	(0.7)
HOME	8.7	4.8	4.7	4.6	(0.1)
American Dream Down payment Initiative	-	0.06	0.06	0.02	(0.0)
Lead Grant	0.4	0.4	0.8	0.4	(0.4)
ESG	1.4	0.7	0.7	0.7	0.0
HOPWA	0.4	0.5	0.5	0.5	0.0
NYS Environmental Restoration Project	-	-	1	-	(1.0)
CDBG Program Income	4.9	2.6	2	1.8	(0.2)
Additional loan recovery and sales of assets	-	0.2	0.3	0.2	(0.1)
HOME program income	0.3	0.3	0.3	0.3	0.0
TOTAL	33.4	26	26.8	24.2	(2.6)

As mentioned above, in looking at BURA expenditures there are two distinct categories, grant expenditures, which are program related costs, and administrative and planning, which are sometimes referred to as soft costs. The first chart below details grant expenditures, while the second chart looks at administrative and planning costs. The recent fluctuations experienced in revenues have also been experienced on the expenditure side of BURA operations. Overall, expenditures are expected to decrease $2.6 million in 08-09 from 07-08 levels. The decrease can be largely attributed to spending associated with the NYS Environmental Restoration Project, which was funded at $1.0 million last fiscal year and is not funded for the 08-09 fiscal year, as well as decreases in revenue. One cautionary note should be pointed out: BURA continues to use nearly $3 million yearly, of its CDBG allocation to pay off prior Section 108 Loan Guarantees, some of which resulted from developers defaulting on their loans. A look at successful Section 108 Loan Guarantee projects from other communities across the country reveals that these types of loan programs can produce sufficient program income to pay off loans made for development activities, allowing the municipality to concentrate scare resources on additional development activities. In Buffalo's case, CDBG funds that could potentially be used for additional brick and mortar type projects or other development activities are being used to pay off prior Section 108 loans, taking away resources that could ultimately benefit the community.

BURA Expenditures ($ in million)	FY 05-06 Actual	FY 06-07 Budget	FY 07-08 Budget	FY 08-09 Budget	Change 07-08 to 08-09
CDBG public service costs	2.5	2	2.1	2.4	0.3
Section 108 Loan repayments	3.7	3.3	3.2	2.9	(0.3)
Fannie Mae Loan repayments	-	1.6	1.6	1.4	(0.2)
CDBG payroll reimbursement to COB	0.5	0.9	0.4	-	(0.4)
CDBG program costs	12.2	7.7	8	7.6	(0.4)
HOME CHDO set aside	-	0.7	0.7	0.7	0.0
HOME program costs	8.4	3.8	3.8	3.6	(0.2)
American Dream Downpayment Initiative	-	0.06	0.06	0.02	(0.0)
Lead Grant	0.4	0.4	0.8	0.4	(0.4)
ESG program costs	1.3	0.7	0.7	0.7	0.0
HOPWA program costs	0.4	0.5	0.5	0.5	0.0
NYS Environmental Restoration Project	-	-	1	-	(1.0)
TOTAL PROGRAM COSTS	29.4	21.6	22.8	20.1	(2.7)

BURA Expenditures ($ in million)	FY 05-06 Actual	FY 06-07 Budget	FY 07-08 Budget	FY 08-09 Budget	Change 07-08 to 08-09
CDBG indirect cost reimbursement to COB	0.2	0.2	0.2	0.14	(0.1)
CDBG planning costs	-	0.3	0.4	-	(0.4)
CDBG admin costs	3.2	3.4	2.9	3.4	0.5
HOME admin costs	0.5	0.5	0.5	0.5	0.0
ESG admin costs	0.04	0.04	0.04	0.04	0.0
HOPWA admin costs	0.01	0.01	0.01	0.01	0.0
Lead Grant	0.03	0.02	0.03	0.02	(0.0)
TOTAL ADMIN AND PLANNING COSTS	4	4.4	4	4.1	0.1
TOTAL OVERALL EXPENDITURES	33.4	26	26.8	24.2	(2.6)

On the spending side, spending for employee salaries is expected to increase to about $2.8 million yearly, from approximately $2.3 million, but salaries are budgeted flat over the course of the four-year plan. Employment levels should remain relatively flat at around 60 full time positions. While employment levels will remain relatively stable at around 60 positions for the 2008-09 FY and the immediate years preceding, historically speaking, BURA staff levels are down considerably. In the 2003-04 FY, BURA maintained 87 full time employees, and carried a low of 59 employees in 2006-07. Fringe benefit costs are expected to decrease slightly from 2007-08 levels, but increase more than 22 percent or $357,929 over the life of the financial plan. Health insurance was previously consolidated under a single plan for all City and covered organization personnel and remains so for the 08-09 fiscal year. BURA's employee contract expired at the end of the 2003-04 FY, and a new contract has yet to be negotiated with bargaining units representing BURA's employees. Pension costs are calculated according to the NYS Comptroller's final rates for the NYS Employee's Retirement System. BURA reports that pension related costs have slightly decreased for the 2008-09 FY, but have been conservatively budgeted at the previous level. The following graph displays both historical and expected future staffing levels for BURA:



BURA Facilities

BURA holds title to the Market Arcade Building on Main Street, which houses BFSA's offices, and also owns the William Street Industrial Park, both of which are available on a rental basis. Income generated from these two properties is included with program income reported in BURA's four-year plan. Additionally, BURA owns a plethora of parcels of land, which are held for redevelopment purposes. The land parcels were acquired using grant funds and any rental or sale income from these properties is also recorded as program income and reported as budgeted income.

Summary of Financial Plan through 2011-12

BURA's financial plan for fiscal years 2009-10, 2010-11 and 2011-12 reveals declines of nearly 6 percent in revenues and expenditures. BURA's Operating Budget increases slightly on a year to year basis, over the life of the financial plan. As noted earlier fringe benefit costs are expected to grow annual at approximately 7 percent, and yearly increases are built into the budget reflecting this cost increase over the years the financial plan covers, and as part of the overall fringe benefit cost growth, health insurance costs are assumed to grow by 12 percent over the life of the financial plan. Staff levels will remain stable at about 60 full time employees over the four-year plan period, which is down roughly 30 percent since the 2003-04 FY.

Risks

As all multi-year financial plans contain a certain degree of risk, BURA's is no different. While the plan appears sound, there may be some risk in the following areas:

- The financial plan assumes major federal grant programs will continue to be funded at the same levels for the next four years, when recent history seems to suggest otherwise. For example, CDBG funding allocations for the City of Buffalo decreased over 20 percent (or $4,045,720) between 2003 and 2008, while HOME funding allocations decreased over 13 percent (or $696,806) during the same period, and ESG funding also declined over the period of 2003 to 2008.

- Past pending lawsuits could change the financial landscape for BURA, as legal setbacks could drive BURA's wage obligation higher than what is currently built into the financial plan. Additionally, the uncertainty with BURA employee's contract could also drive financial risks, if a new contract is reached beyond BURA's ability to pay over this period.

- CDBG program income declined nearly 57 percent from 2004-05 levels to 2007-08 budgeted levels and HOME program income declined nearly 52 percent over the same period, but BURA has projected consistent levels of program income for both CDBG and HOME over the life of the financial plan.

- Another risk factor for BURA includes the practice of using current CDBG funds to pay off past Section 108 Loan Guarantee projects, taking funding away from other more effective uses for CDBG, such as community development or public services.

- A significant financial issue for BURA remains the utilization of funding to alleviate deficits occurring prior to 2003. Poor management practices prior to 2003 led to a situation where funding in excess of what was available was expended on grant programs. Progress to retire prior budget shortfalls is expected to continue going forward until the remaining $1,000,000 (As of March 31, 2008) is retired. While BURA has managed this situation effectively thus far, it remains a concern.

- The U.S. Department of Housing and Urban Development has expressed some concerns with BURA's Consolidated Annual Plan for fiscal year 2008-09 and going forward. HUD did not approve or disapprove BURA's plan, and therefore BURA's plan is approved by default. Careful monitoring of this situation will be essential for BURA's short and long term outlook.

BURA's recent conservative budgeting practices along with proactive management have improved its financial outlook, providing assurances against potential risks. However, individual program management practices remain an area of concern and will need careful attention to prevent problems from affecting overall BURA operations. Conservative budgeting practices will serve BURA well and position the agency to further strengthen itself for the future, as it works to develop City neighborhoods and commercial districts helping the City continue improving as a place to live, work and play.

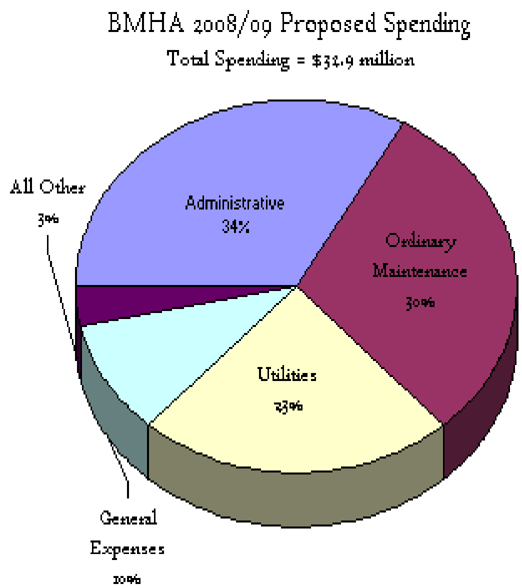
Buffalo Municipal Housing Authority

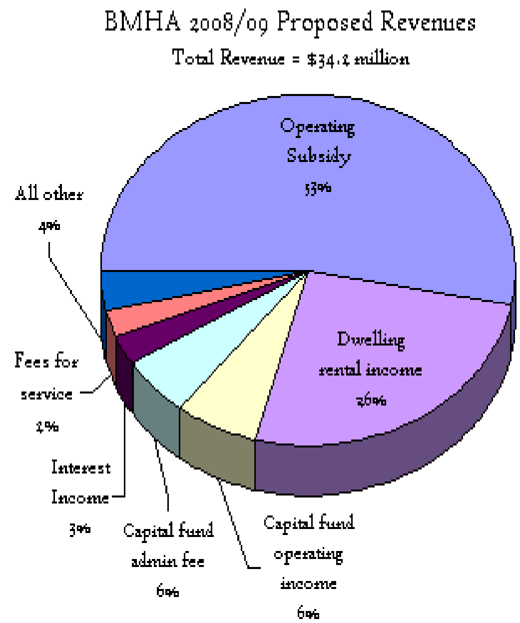
The Buffalo Municipal Housing Authority (BMHA), established in 1934 by resolution of the City's Common Council, is responsible for the construction, rehabilitation and modernization of all low-income public housing within the City of Buffalo. It is governed by a seven-member board comprised of five mayoral appointees and two representatives elected by the tenant population. BMHA was named a "covered organization" in Section 3851 of Act that created the Buffalo Fiscal Stability Authority.

BMHA's finances have faced sustained pressure in recent fiscal years, in the face of lingering questions regarding federal funding levels. BMHA's new financial plan for its federal portfolio (as overseen by the U.S. Department of Housing and Urban Development) contains revenues of $32.9 million in 2008-09 growing to $35.6 million in 2011-12, an increase of 8.2 percent over four years. The financial plan is balanced in every year with minimum annual surpluses. It is essentially a "steady state" plan, with sustained services and minor annual growth.

Summary of 2008-09 Budget

The 2008-2009 budget provides for spending of $32.9 million which represents a decrease of 1.5% from the 2007-2008 budget. The following charts show a breakdown of BMHA's budget by major spending and revenue category. In addition to the HUD operating budget, BMHA is also expected to receive additional revenues of $16.1 million in other grants, of which the major components are HUD capital grants (for rehabilitation and upgrade of properties) budgeted at $10.3 million and Section 8 grants totaling $5.6 million.





Overall revenues are budgeted $478 thousand below the revised budget for 2007-2008. HUD's operating subsidy ($18.2 million) makes up 53.1% of revenues, and is a significant decrease from the $22.5 million or 65% of overall revenues received in the prior year and 62.3% or $21.8 million forecasted for the fiscal year ending 6/30/08. The decrease in BMHA's subsidy results from general expectations that housing subsidies nationwide will be cut by the federal government to lower levels, as well as the impact of the rolling base calculation for utility subsidies from HUD which went from an inflation factor of 11.2% in 2007 to 3.8% in 2008. Additionally, funds which in earlier years were expended out of capital grant funds are now transferred into BMHA central operations as are Other Revenues to cover staffing which is now part of HUD operations.

Rental income, 26.6% of revenues, is expected to increase slightly over receipts for the past two years as BMHA is pushing for improved tenant retention rates and faster turnaround in vacancy preparations, thus lowering overall vacancy rates. Other anticipated increases in revenues come from increases in administrative revenues paid through the capital grant and enhanced investment income, the latter is a combination of rates and increased cash availability.

BMHA Revenues (in $ millions)	**FY 2005 Actual**	**FY2006 Actual**	**FY2007 Actual**	**FY 2008 Rev. Budget**	**FY 2009 Budget**
HUD Subsidy	18.1	20.2	22.5	21.8	18.2
Rental Income	11.5	9.1	8.8	8.7	9.1
Capital Fund Op. Inc		1.7	1.0	1.9	2.2
Investment Income	0.2	0.6	0.7	0.3	0.9
Other		0.3	1.6	2.0	3.8
Total	**29.8**	**31.9**	**34.6**	**34.7**	**34.2**

Note: As a result of the move to asset-based reporting fiscal years 2005 and 2006 are not totally comparable. Certain categories under asset-management were reported under grant revenues in the past.

On the expense side total expenses are budgeted lower than the revised budget for last year to counter the anticipated lower revenues and reflect staff moves that better fit the new organizational structure of asset-based management. Key drivers of BMHA expenses are maintenance, utilities and administrative services.

BMHA Expenditures (in $ millions)	**FY 2005 Actual**	**FY2006 Actual**	**FY2007 Actual**	**FY 2008 Rev. Budget**	**FY 2009 Budget**
Administrative	3.1	2.0	2.4	6.7	7.7
Tenant Services	2.4	2.1	2.0	0.5	0.7
Utilities	8.9	12.0	9.0	9.2	7.3
Maintenance	7.6	7.0	6.7	7.4	7.8
Protective Services	1.6	0.1	0.0	0.1	0.2
Insurance	1.7	1.7	1.8	1.9	1.8
Employee Benefits*	5.7	5.4	5.1	6.2	5.9
Interest Expense	0.0	0.0	0.3	0.8	1.1
Other General Exp.	0.4	0.5	0.5	0.6	0.4
Total	**31.4**	**30.8**	**27.8**	**33.4**	**32.9**

BMHA reports employee benefits as part of the various departments, but for purposes of analytical comparisons they have been separated and are reflected as one category.

The effect of the new asset-based reporting system can be seen in the rise in expenditures attributable to administrative functions and the decrease in those attributed to tenant services. Administrative expenses now include much of what in earlier years was in tenant services as most of that staff is now part of the central administration and is charged out to the various asset groups. Additionally, as explained in the revenue section, much of the staffing which had been paid out of capital grants is now part of BMHA administration, and both revenues and expenses have been transferred to HUD operations.

A major issue in the budget is the 21% decrease in budgeted utility expenditures from the prior budget and a somewhat lower percentage decrease expected from the current year operations. BMHA attributes the aggressive budgeting to the full impact of the energy saving projects undertaken over the last three years, which will be incorporated for the full budget year. The risk involved in these assumptions is substantial and will need to be watched closely.

BMHA Workforce Size	FY 2008 Budget	3rd Quarter Actuals	FY 2009 Budget	Yr-to-Yr Budget Change
Audit	3	3	5	2
Executive	17	17	16	-1
MIS	5	5	5	0
Finance & Budget	13	13	13	0
Personnel	4	4	6	2
Capital Imp and Development	14	11	14	0
Section 8	9	9	9	0
Asset Management	192	160	198	6
Total	**257**	**222**	**266**	**9**

BMHA is anticipating some staff increases to allow for the asset-management model to work properly and still provide overall control of operations. However, given that overall expenditures are budgeted lower, we anticipate that they will carry a relatively high number of vacancies throughout the year. At the end of the third quarter they had 257 budgeted positions with 35 vacancies.

Summary of Financial Plan through 2011-2012

BMHA is projecting modest surpluses for the budget year as well as for all the plan years. Because BMHA budgets on an accrual basis (except for depreciation, which is not included), the housing authority must generate sufficient funding after expenditures to pay principal payments of $800 thousand on the debt for the energy savings project undertaken over the last three years.

BMHA Financial Plan ($ in millions)	FY 2009 Budget	FY 2010 Projected	FY 2011 Projected	FY 2012 Projected	2009-12 Change
Revenues	34.2	34.8	35.7	36.5	6.73%
Expenditures	32.8	33.7	34.6	35.6	8.50%
Surplus (Deficit)	**1.4**	**1.1**	**1.1**	**0.9**	
Other Grant Revenues	12	12	12.1	12.1	

All revenue categories grow slowly over the period, with HUD's operating subsidy, the largest component going from $18.1 million to $19.5 million.

BMHA Financial Plan ($ in millions)	FY 2009 Budget	FY 2010 Projected	FY 2011 Projected	FY 2012 Projected	2009-12 Change
HUD Subsidy	18.2	18.6	19.0	19.5	7.10%
Rental Income	9.1	9.3	9.5	9.7	6.60%
Capital Fund Op. Inc	2.2	2.5	2.3	2.4	
Investment Income	0.9	0.9	1.0	1.0	
Other	3.8	3.5	3.9	3.9	
Total	**34.2**	**34.8**	**35.7**	**36.5**	**6.73%**

HUD's subsidy for the budget year is 20% lower than that anticipated for FY 2008 of $21.8 million, under the assumption that Congress will continue to chip away at housing subsidies nationwide. The assumption is conservative as HUD cuts of this magnitude have not been experienced in the past.

BMHA Financial Plan ($ in millions)	FY 2009 Budget	FY 2010 Projected	FY 2011 Projected	FY 2012 Projected	2009-12 Change
Administrative	7.7	7.9	8.1	8.3	7.79%
Tenant Services	0.7	0.7	0.7	0.7	
Utilities	7.3	7.6	7.8	8.1	11.00%
Maintenance	7.8	8.0	8.2	8.4	7.69%
Protective Services	0.2	0.2	0.2	0.2	
Insurance	1.8	1.8	1.9	1.9	
Employee Benefits*	5.9	6.1	6.2	6.4	8.47%
Interest Expense	1.1	1.1	1.2	1.2	
Other General Exp.	0.3	0.3	0.3	0.4	
Total	**32.8**	**33.7**	**34.6**	**35.6**	**8.54%**

On the expenditure side expenses grow faster than revenues primarily due to inflation in utility costs and in employee benefits. Both lines however, seem to have been budgeted aggressively. On the other hand, benefits, as a percentage of salaries are 77% for all four years of the plan, which appear reasonable given that fiscal year 2007 and 3rd quarter year-to-date report shows benefit costs at 60% of salaries. BMHA argument for the lower utility costs is their reliance on the savings anticipated out of the three phase energy conservation project which will all be on stream for the full year 2009.

Staffing levels grow by 9 during the budget year and remain stable for the period of the plan.

Major Developments

BMHA is in the process of redeveloping A.D. Price Courts. Phase I of this project (55 units) has been approved by HUD and BFSA, while financing through a variety of sources, including a tax credit financing package is now in place. The Authority is also committed to redeveloping the State portfolio, Kensington Heights, and has secured a $5 million demolition grant from the Dormitory Authority for demolition of the current structures.

Budget and Financial Plan Risks

- Cuts in federal housing subsidies are the major threat to the budget, while also presenting a major opportunity. Federal funding was cut in the last year, although not as drastically as the cuts reflected in the 2008-2009 budget and plan.

- BMHA has still not been audited for compliance with asset-based management, which is key to maintaining or increasing the subsidy levels reflected in the plan. Failure to pass a compliance audit would result in a significant loss of subsidy, over and above those reflected here. BMHA is confident that they will pass the compliance review.

- Utility expenditures have been budgeted aggressively, reflecting their high expectations of payoff from the various energy savings programs undertaken over the past three years, which are nearing completion. Failure to achieve the budgeted levels of savings will severely impact financial results.

- Collective bargaining agreements remain a large risk to the financial plan. Careful management of labor agreements is necessary to achieve long-term fiscal stability.

BMHA is not required to show OPEB figures until the end of the 2008-2009 fiscal year and has not yet undertaken the process to measure such liabilities.

Joint Schools Construction Board

The Joint Schools Construction Board (JSCB) was created in 2000 by resolutions of the Buffalo Board of Education and City Common Council, and given special powers under State law, to manage the acquisition, design, construction, reconstruction, renovation and financing of new public educational facilities in the City of Buffalo, and to create, coordinate efforts to enable compliance with, monitor and report on a program-wide diversity plan as part of the reconstruction effort. The JSCB is comprised of the Mayor, the City Comptroller, the Buffalo Schools Superintendent, one designee of the Common Council, two designees of the Buffalo Board of Education and the State Regent for the Eighth District of the City (who serves in an ex officio capacity). JSCB was named a “covered organization” in Section 3851 of the Buffalo Fiscal Stability Authority Act.

By the end of the 2007-08 fiscal year, JSCB had completed improvements to nine schools from Phase I and nearly completed thirteen Phase II projects at an aggregate cost of $326.9 million. Of this, $18.9 million has been approved by the State Education Department as an adjustment to the maximum cost allowance (MCA) for Phase II, and is to be included in a new money financing for Phase III. All thirteen Phase II schools were open for the school year beginning in September 2007, although the gymnasium at School 304 (Hutch Tech) was not completed until November 2007.

Phase II Update

The following table summarizes progress as of June 30, 2008 for Phase II:

Status of Phase II Projects* ($ in million)	Project Cost	Spent as of 6/30/08	Percent Completed
School 6	$18.78	$18.78	100%
School 33	$13.63	$13.63	100%
School 37	$14.64	$14.64	100%
School 39	$20.03	$20.03	100%
School 69	$13.62	$13.62	100%
School 82	$10.66	$10.66	100%
School 90	$9.17	$9.17	100%
School 91	$14.10	$14.10	100%
School 94	$16.52	$16.52	100%
School 95	$27.65	$27.65	100%
School 192	$35.79	$35.79	100%
School 200	$36.66	$36.66	100%
School 394	$36.06	$36.06	100%
All High Stadium	$6.62	$6.18	93%
Districtwide Technology	$50.28	$38.63	57%
Energy Performance	$9.25	$9.25	100%
Totals	$326.89	$315.24	96%

* Including additional approved MCA to be funded through Phase III financing

Phase III Update

Phase III consists of nine schools, and energy and technology components. The District is dividing the Phase III work into two sub-phases, due to insufficient maximum cost allowance having been approved by the State Education Department (SED) for several of the projects. Where current MCA levels are adequate, the District will commence work on four schools, as well as the energy and technology components. This Phase IIIA will cost approximately $162 million (i.e. the amount of project costs) and will allow contractors currently completing Phase II schools to begin work on the next phase of the reconstruction project. Phase IIIB is projected to cost approximately $188 million. Both phases are moving forward at this time.

Status of Phase III A & IIIB Projects ($ in million)	Project Cost	Spent as of 6/30/08	Percent Completed
School 27	$17.33	$8.35	48%
School 32	$28.49	$18.55	65%
School 206	$39.90	$23.29	58%
School 301	$38.08	$15.87	42%
School 43	$23.62	$6.27	27%
School 45	$27.96	$8.70	31%
School 76	$21.83	$4.14	19%
School 195	$42.20	$3.63	9%
School 205	$30.07	$1.90	6%
Districtwide Technology	$66.34	$26.05	39%
Energy Performance	$14.25	$9.64	68%
Totals	$350.06	$126.39	36%

Phase IV

Initial work is already beginning for Phase IV; the District and LP Ciminelli have entered into the Master Design and Construction Agreement, valued at $10.2 million, for this phase. Phase IV is expected to include10 schools as follows:

BPS 3 - D'Youvlille Porter Campus
BPS 54 - ECC – Dr. George Blackman School of Excellence
BPS 81 - School 81 on Tacoma Avenue
BPS 93 - Southside Elementary School
BPS 305 - McKinley Comprehensive HS of Choice
BPS 17 - Early Childhood Center on Wes Delevan
BPS 72 - Lorraine Academy
BPS 84 - Erie County Health Center for Children
BPS 203 -Olmstead 5-12 at Kensington
BPS 197/306 - Math, Science and Tech at Seneca

Final inclusion of all 10 schools will depend on cost and maximum cost allowance as set by State Department of Education for each project. Legislation was approved by the Governor with the condition that the MCA would be reduced to 94%, which increase the district costs by an additional $8 million.