

CITY OF BUFFALO
DEPARTMENT OF AUDIT & CONTROL



BUDGET RESPONSE

2020-2021 FISCAL YEAR

&

2021-2024 FOUR YEAR FINANCIAL PLAN

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COMPTROLLER

MAY 9, 2020

Charter of the City of Buffalo

§ 20-7 Comptroller's Assessment of Accuracy of Revenue and Expenditure Assessments

[Amended 10-2-2012 by L.L. No. 1-2012, effective 10-2-2012]

As per the City of Buffalo Charter, "On or before the tenth day of May, the Comptroller shall submit to the council an assessment of the accuracy of the revenue and expenditure estimates of the budget and the four-year financial plan the mayor submits to the council. The comptroller shall opine on the sufficiency of the financial plan and whether it contains sufficient data to support the outcomes projected."

Introduction

Pursuant to the City Charter and the Comptroller's role as the City's Chief Fiscal Officer, I hereby submit this assessment of the Mayor's recommended budget for the fiscal year 2020-2021 and the four-year financial plan for fiscal years ending 2021-2024.

I recognize that given the impact of the Coronavirus Disease (COVID-19) pandemic, the recommended budget was prepared by the Administration facing extraordinary and unforeseen circumstances. The difficult challenge to estimate decreases in revenue sources while maintaining funding to continue vital public services that are likely to be negatively impacted by the economic fallout of the pandemic are evident throughout the budget.

This is particularly noticeable in sales tax revenue which reflects a decrease of \$19.4million (21.6%), Licenses and Permits which reflects a decrease of \$755 thousand (12.2%), as well as within the Service Charges reflect a decrease of \$4.8million (23.8%). Additionally, a twenty percent (20%) decrease in State Aid and Incentives to Municipalities (State AIM) totaling \$32.3 million has been included in the budget. The aforementioned categories represent a combined decrease of \$57.1 million.

The expenses have been budgeted and reflects the preservation of city services at present levels and anticipates no changes in personnel and delivery of services. It also accounts for various increases in expenses directly related to COVID-19. In addition, please note that the Administration has included \$65 million in potential federal stimulus funding to balance the budgeted expenses.

As publicly noted, I remain concerned with the current reserve position of the City and the amount which has been used to close its budget gaps in past years. Although the City experienced a modest surplus in fiscal 2019 (\$949K), it used \$57 million in reserves to close its budget gaps in the two previous years. Those reserves would have been very useful in the current situation.

The Administration is projecting a fiscal year 2020 budget deficit of approximately \$15.6 million at the conclusion of the current fiscal year. This likely deficit may possibly be higher based on recent analysis of the city financials. With an unassigned fund balance of \$0 and assigned fund balance of \$13 million as of June 30, 2019, the use of the remaining available reserves is insufficient and the depletion the City’s Rainy-Day Fund would commence. This condition will be further evaluated in my forthcoming response to the 2019-2020 Third Quarter GAP Sheets.

The recommended budget for next year does not utilize any fund balance to balance its budget. However, a potential shortfall would cause a further depletion of the Rainy-Day Fund.

In addition to accessing the accuracy of revenue and expense estimates, this report will further address the city’s revenues, expenses, fund balance and Four -Year Financial Plan and the potential consequences of adopting the budget in its current form.

Revenues

The recommended budget includes revenues of \$519,550,544 million in 2020-2021, an increase of \$10,867,707 million which is 2.1% higher from the prior year adopted budget. Also included is a total of \$77,562,569 million from Misc. Federal Reserve, Federal Disaster Relief and Tribal State Compact (TSC) casino revenue. The aforementioned recommended revenue sources are questionable and require further information from the Administration in order to corroborate the estimates.

Please view chart listed below which outlines the recommended budget amounts compared to prior fiscal year (2018 to 2019) actuals and current fiscal year (2020) projected actuals.

	A	B	C	D	E
Questionable Items included in the 2020-2021 Budget	2020-2021 Recommended Budget	Fiscal Year 2020 Projected Actuals	Fiscal Year 2019 Actuals	Fiscal Year 2018 Actuals	Potential Over/Under Estimated Revenue (A - C)
Miscellaneous Federal Revenue	\$1,500,000	\$0	\$10,000	\$25,083	\$1,490,000
Federal Disaster Relief	\$65,062,569	\$0	\$0	\$0	\$65,062,569
Tribal Compact Agreement (Casino)	\$11,000,000	\$0	\$7,500,000	\$0	\$3,500,000
Erie County Sales Tax	\$70,440,000	\$80,675,081	\$87,485,150	\$84,897,188	-\$17,045,150
Traffic Violations Fines	\$5,500,000	\$2,180,768	\$2,883,600	\$3,003,992	\$2,616,400
Sch Zn Cam (School Zone Camaras)	\$2,300,000	\$60	\$0	\$0	\$2,300,000
Total	\$155,802,569	\$82,855,909.0	\$97,878,750.0	\$87,926,263.0	\$57,923,819.0

Miscellaneous Federal Revenue and Federal Disaster Relief - Amid the COVID-19 pandemic, \$1.5 million Miscellaneous Federal Revenue and \$65 million of Federal Disaster Relief funding has been recommended for the 2020-2021 budget. I find these revenue items to be of serious concern as the U.S. Congressional Delegation have not reached a tentative agreement of the Interim Bill for emergency fiscal relief. It is not fiscally conservative to rely on this stream of revenue prior to a governmental agreement. A contingency plan to bridge the potential budget gap will be required should the budgeted funding not be made available to the City.

Sales Tax—When compared to last year’s adopted budget the Erie County sales tax revenue has been reduced by 22%(\$19,360,000 million).However, based on government model estimates, municipalities should expect a sales tax reduction between 5% to 10% absence of additional information being forthcoming from the Erie County representatives responsible for allocating funding to municipalities.

Traffic Violation Fines - The 2020-2021 budget for Traffic violation fines have been increased by \$2.2 million or 67% to \$5.5 million. Since 2015, the city has regularly over budgeted this line item more than \$1 million for the past several years.

School Zone Cameras - It should be noted that a dramatic decrease in these fines projected for fiscal year 2020are in direct correlation to the COVID-19 pandemic. A significant portion of the budgeted increase may be due to anticipated fines generated by the school bus cameras.

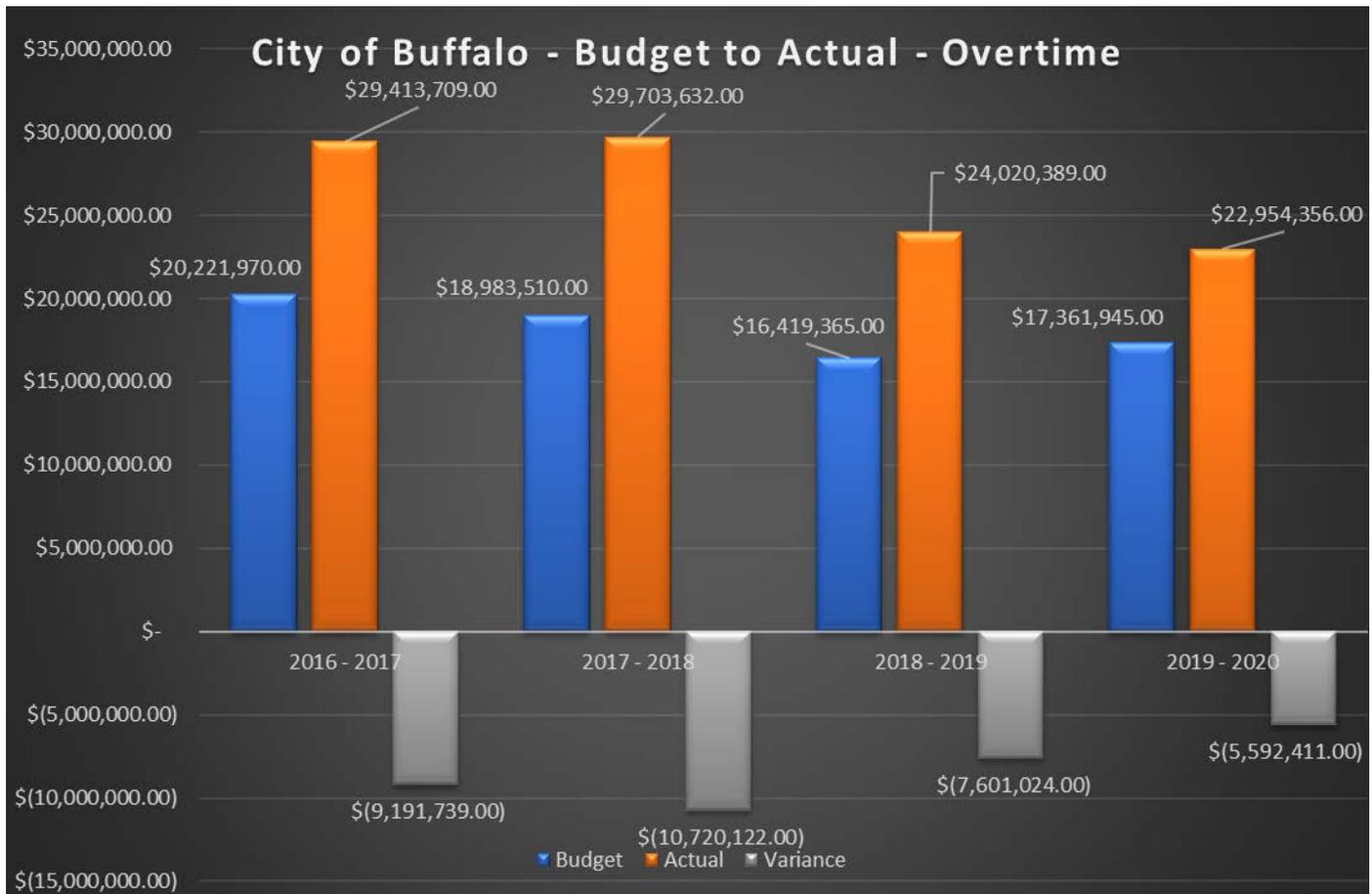
In February 2020, the utilization of school zone cameras across the city resulted in an increase in fines and revenue to the city. The COVID-19 pandemic eliminated the potential to generate additional such revenue. Additionally, the Common Council’s desire to limit school zone cameras operation to four (4) hours a day may result in a decrease in projected revenues once the school district reopens. With less travelers on the roads and school district closures until further notice, the justification of an increase in projected fine revenue is not considered to be fiscally responsible at this time.

Tribal State Compact (TSC) Casino Revenue -The City has again budgeted \$11 million for this item in the 2020-2021 budget. It deserves noting that tribal gaming revenues have not been received by the City since 2017.Specifically, due to the uncertainty of casino revenue that might be generated in the midst of the COVID-19 pandemic and the resulting temporary closure of casinos across the state, there is a significant amount of risk on relying on this revenue item.

Expenses

The recommended budget includes expense appropriations of\$519,550,544 million in 2020-2021, an increase of\$10,867,70 million which is 2.1%higher from the prior year adopted budget amount.

Overtime - The recommended budget line for overtime is possibly underestimated based on data collected from previous fiscal years. For the purpose of fiscal years 2017 through 2019 the city averaged \$27,712,577 million in overtime costs for employees and fiscal year 2019-2020 projected overtime costs at \$22,954,356 million. This year, the recommended budget estimates overtime costs to total \$17,652,915 million. Even with the reduction in overtime due to COVID-19, it appears that overtime expenses are still under budgeted by approximately \$5 million in 2020-2021.



Judgements and Claims				
Fiscal Year 2017 Actual	Fiscal Year 2018 Actual	Fiscal Year 2019 Actual	Fiscal Year 2020 Projected Actual	2020-2021 Recommended Budget
\$8,113,841	\$6,931,482	\$3,075,902	\$7,857,767	\$2,000,000

Judgement and Claims-Based on previous years actual Judgement and Claims costs to the City of Buffalo we believe the recommended budget amount of \$2,000,000 million is too low for fiscal year 2020-2021. Over the past three fiscal years (2017-2019) we've averaged annual net payouts of \$6,040,408 million. At the recommended amount, the Judgement and Claims account is under budgeted at \$4 million. In addition, it must be noted that currently there are zero funds in the Unassigned Fund Balance account to cover Judgement and Claim costs exceeding the recommended budget amount.

Personal Services -This labor-driven line item represents expenses of \$202,756,473 million and includes salaries,, holiday pay, duty disability pay, overtime and longevity payments. For the fiscal years 2017 through 2019, the City averaged \$11.2 million in duty disability salary costs. In the 2019-2020 fiscal year, the projected costs totaled \$11.5 million. This year the City has recommended \$6 million for disability salary costs which is a potential year-over-year decrease of \$5,569,855 million. Reducing this budget item so significantly is not fiscally responsible as accidents and illness are inevitable.

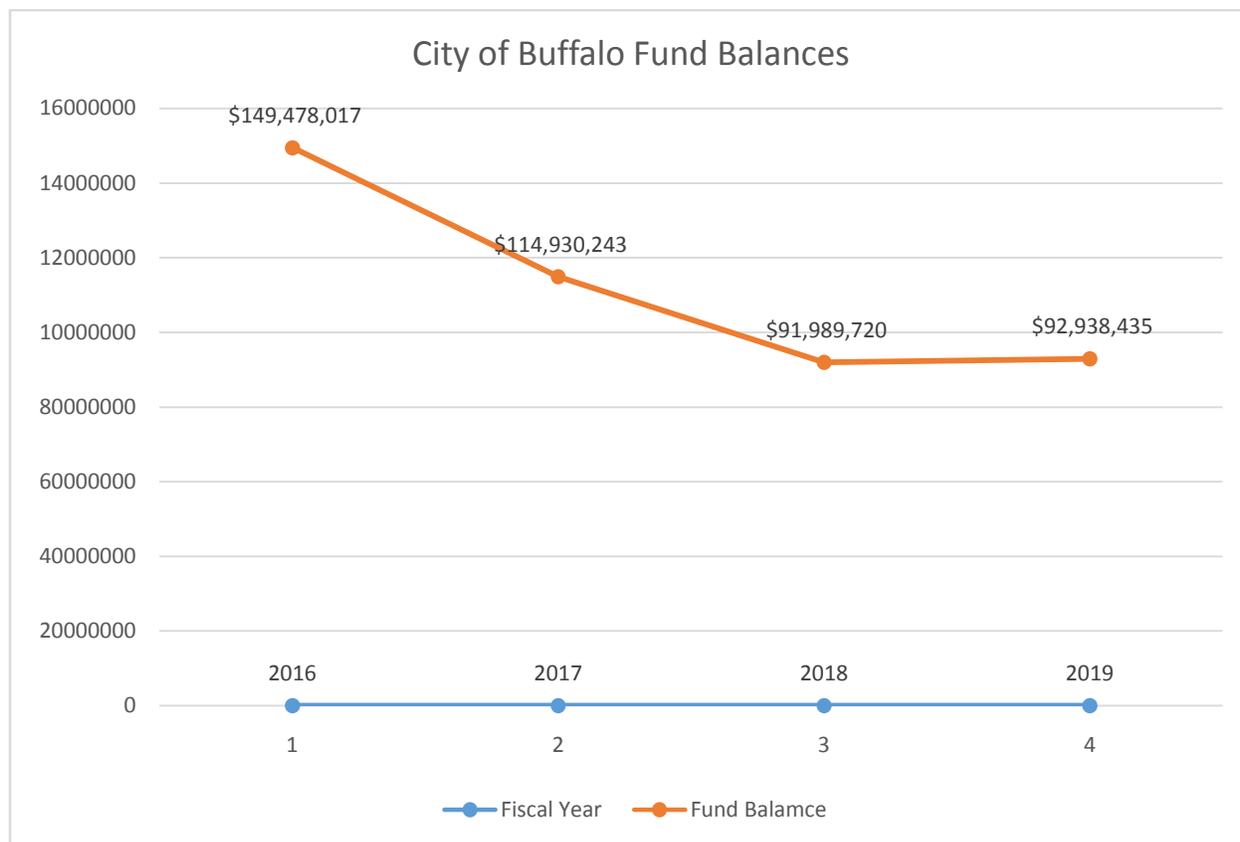
Contract Vendor Supplies- In an effort to combat the effects of COVID-19 I note that a significant year-to-year budget increase of 2,093% for Contract Vendor Supplies and an increase of 1,336% in Janitorial Supplies.

Health Insurance Retired - This budgeted item appears to be overestimated, with \$38.6 million budgeted in fiscal year 2019-2020 and averaging actual costs of \$35.2 million over the past three fiscal years (2017 to 2019). Increasing this budget line item by\$6 million this upcoming budget year is not fiscally conservative absent of further information from the Administration.

Fund Balance

The City's reserves, known as Fund Balance, acts as a savings account for the City. However, in recent years it has been used to close out budget gaps. There has been a depletion of \$106 million in reserves in the past nine years and with at least \$16 million potentially needed to close out the current fiscal year budget.

All of the City's Fund Balance is currently set aside for specific purposes. The only category of Fund Balance that can be used to fill budget gaps is Unassigned Fund Balance, which today has a zero balance. As previously noted, we expect that unassigned and assigned fund balance to be completely depleted at the end of the current fiscal year, with the committed Rainy-Day fund balance to cover additional shortfalls in the current year.



Four-Year Financial Plan

Based on the financial information provided by the Administration in the Four-Year Financial Plan, I requested that an analysis be performed by the Department of Audit and Control personnel regarding the city's fiscal and economic outlook. It was noted that expenditures are budgeted to increase approximately 1% each year of the plan.

Union contracts, employee raises, as well as inflation and annual increases in employee benefits expenses were reviewed and these predicted expense amounts appear to be understated. The four-year plan does not contain sufficient data to support the outcomes as projected. In addition, noticeably absent was a policy and/or action plan to replenish the City's Fund Balance.

Conclusion

As Comptroller, I have substantial concerns regarding the recommended budget and the fiscal road ahead. While the City of Buffalo was heading down a progressive path, the COVID-19 pandemic redirected the financial future of the City of Buffalo during an extraordinarily difficult time.

The economic impact from COVID-19 is evident in the 2020-2021 recommended budget with reductions to various revenue lines (Special State Aid, Sales Tax, Service Charges & Fines). The budget contains \$77,562,569 million in revenues that are of concern and require fiscal monitoring. Should such revenue sources such as the Federal Disaster Relief Funding, Miscellaneous Federal Revenue, State AIM funding and Tribal State Compact Casino Revenue fail to materialize, the City will have to take drastic measures to balance the budget for fiscal year 2020-2021.

The Comptroller's office will continue the role of monitoring revenues, expenditures, debt and cash trends and look forward to implementing the industry's best practices during this extremely challenging fiscal time.