

City of Buffalo
Department of Audit & Control



Budget Response

2021-2022 Fiscal Year

&

2022-2025 Four Year Financial Plan

Barbara Miller-Williams
Comptroller

May 10, 2021

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 2021-2022, and the Four-Year Financial Plan for fiscal years ending 2022-2025.

The City of Buffalo continues to respond to the fiscal challenges presented by the Coronavirus Disease (COVID-19) pandemic; the recommended budget prepared by the Administration reflects credible revenues and appropriations based off actual prior years' financial results. The expenses have been budgeted and reflects the preservation of the delivery of city services at present levels and anticipates no changes in personnel.

The Administration is projecting a fiscal year-end budget deficit of \$11.2 million. The estimated potential deficit may be higher based off our recent analysis of the City financials which is projecting a deficit of \$17.2 million minus the receipt of any Federal stimulus funds. With no change to unassigned fund balance of \$0 and assigned fund balance of \$12.7 million as of June 30, 2020, the use of the remaining available reserves is inadequate and would initiate the use of the City's Emergency Stabilization Fund. The Comptroller's Office will file the required financial analysis of the Administrations Third Quarter GAP Report with the Buffalo Common Council.

The proposed budget for fiscal year 2021-2022 does not utilize the general fund balance to balance its budget. However, any significant shortages to revenues would cause a further depletion of the City's total fund balance.

The path to a sustainable economic recovery remains a serious concern. It must be noted that the City cannot continue to rely on one-time monetary infusions such as the issuance of Revenue Deficiency Notes and the American Rescue Plan Act of 2021 to compensate for overstated budgeted revenues.

The \$1.9 trillion Federal stimulus rescue package delivers financial assistance for individuals, businesses, hospitals and state/local governments to recover from the impact of the Coronavirus pandemic; the City of Buffalo is projected to receive \$350 million from the American Rescue Plan. The Administration has allocated \$50 million from the Federal stimulus package for anticipated loss revenue in the coming year. However, it is incumbent upon the Administration to provide the United States Department of Treasury the required documentation in order to collect reimbursement for COVID-19 related revenue losses.

Assuming the Federal government guidelines permit, I strongly encourage the Administration and Buffalo Common Council to pay off the \$25 million revenue deficiency note prior to its maturity date of December 31st, 2021. In addition, I recommend the approving authorities develop a public document that details a comprehensive utilization of the funds. The Comptroller's Office personnel will monitor the federal relief funds and provide updates to the Administration, Buffalo Common Council, Buffalo Fiscal Stability Authority and City of Buffalo Taxpayers & Citizens.

Revenues

The recommended budget includes revenues of \$534,577,394 in 2021-2022, an increase of \$15,028,850, 2.8% higher from the prior year adopted budget. Also included is a net total of \$66,930,000 million from Misc. Federal Reserve, Federal Disaster Relief, Tribal Compact Agreement & Sale of Land/Building. The aforementioned recommended revenue sources are uncertain and require further information from the Administration in order to validate the budget amounts.

Please view chart below displaying prior fiscal year’s (2018-2020) actuals and projected year (2021) actual revenues compared to recommended budget year (2022) revenue amounts:

Revenue	FY 2018 Actuals	FY 2019 Actuals	FY 2020 Actuals	FY 2021 Projected Actuals	FY 2022 Budget Amounts
Erie County Sales Tax	\$ 84,897,188	\$ 87,485,150	\$ 86,538,697	\$ 82,066,333	\$ 86,454,865
Real Property Tax	\$ 130,539,085	\$ 137,520,219	\$ 139,169,787	\$ 142,967,000	\$ 142,329,536
Federal Revenue Stimulus	\$ -	\$ -	\$ -	\$ -	\$ 50,430,000
Tribal Compact Agreement	\$ -	\$ -	\$ -	\$ -	\$ 11,000,000
N.Y. State Aid	\$ 161,285,233	\$ 161,285,233	\$ 141,612,859	\$ 170,435,000	\$ 161,285,233
Sale of Property & Buildings	\$ 362,350	\$ 3,964,000	\$ 5,900,294	\$ 255,515	\$ 5,500,000

Erie County Sales Tax—When compared to previous year’s actual Erie County Sales Tax receipts the recommended budget amount falls in line with actual receipts received from Erie County. Economic indicators are predicting a steady increase in spending as Erie County slowly recover from the Covid-19 pandemic.

Real Property Tax – The Administration’s recommended budget includes a modest decrease of \$637,464 when compared to FY 2021 projected property tax revenue. From FY 2012 (Please view chart below) through FY 2021, the tax levy only increased by \$4.6 million (with some decreases in the intervening years). During that same time, total expenditures and transfers out increased \$26.3 million. Other sources of revenue to cover the increasing expenditures during this period have not materialized, which resulted in the depletion of fund balance and many annual deficits, some of which were covered by one-time revenue sources. We urge caution as this trend is not sustainable.

Historical Tax Levy	Tax Levy	Change in Levy
FY 2012	\$ 143,286,356	
FY 2013	\$ 138,643,357	(4,642,999)
FY 2014	\$ 138,268,357	(375,000)
FY 2015	\$ 137,230,000	(1,038,357)
FY 2016	\$ 137,030,000	(200,000)
FY 2017	\$ 139,600,000	2,570,000
FY 2018	\$ 139,618,000	18,000
FY 2019	\$ 145,320,000	5,702,000
FY 2020	\$ 147,865,000	2,545,000
FY 2021 - Forecast	\$ 147,865,000	-

School Zone Cameras – In the previous year, the adopted budget included \$2.3 million in budgeted revenue based on anticipated fines generated by the school zone cameras. This year’s recommended budget does not include a monetary value in the funding line.

Federal Revenue Stimulus – The Administration recommended budget include \$50,430,000 in reimbursable loss revenues due to the pandemic. As of today, the City of Buffalo has not received any information from the U.S. Department of Treasury on what the economic recovery funds can be used on. However, we are very concerned with the amount budgeted and it is important for the Administration to be transparent and share the factors and calculations that determined the budgeted amount. We are uncertain if the City will be able to support and document related revenue losses of \$50.4 million in accordance with the rules (yet to be issued) by the US Department of Treasury. If the City will not be able to claim the \$50.4 million budgeted, the Administration needs to implement a plan to offset the revenue shortage.

Tribal Pact Casino Revenue - Once again the City included \$11 million for this item into the 2021-2022 budget. Tribal gaming revenue has not been received since 2017. There continues to be uncertain risk to relying on this revenue item. However, within the past few years various Court rulings have been decided in the favor of New York State with regard to the unpaid casino revenues.

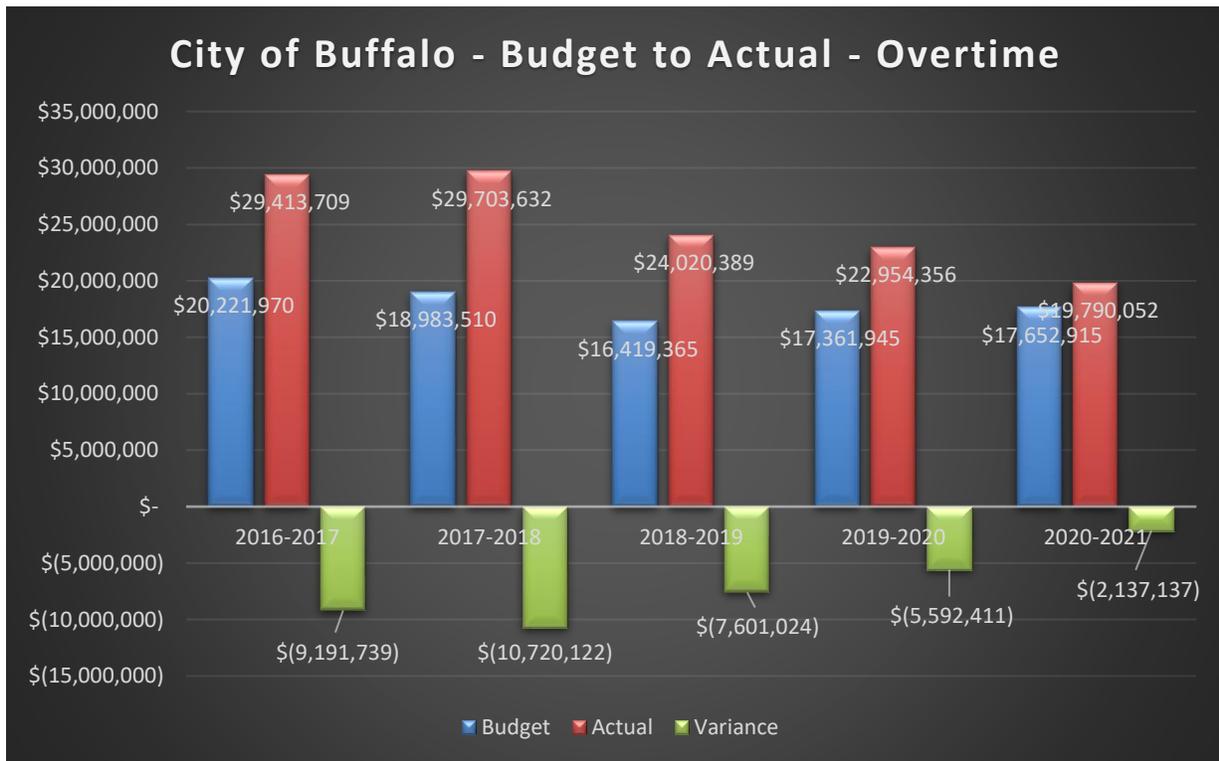
N.Y. State Aid – The State AIM (Aid & Incentives to Municipalities) is budgeted to be restored to the level of fiscal year 2020, \$161,285,233. However, the City should not continue to heavily rely on state funds as its primary revenue funding source.

Sale of Property and Buildings – We need information from the Administration regarding what properties the City plan on selling in fiscal year 2021-2022 that equate to the recommended budget amount of \$5,500,000.

Expenses

The recommended budget includes appropriations of \$534,577,394 in 2021-2022, an increase of \$15,028,850, 2.8% higher from the prior year adopted budget amount.

Overtime - As in the past the recommended budget line for overtime is possibly under budgeted based on data collected from prior years. The City averaged \$26,5523,022 in overtime for fiscal years 2017-2020 and overtime is projected to be \$23,748,062 in FY 2021. Although overtime has trended down from 2017 the 2021-2022 budgeted amount of \$17,253,745 appears to be still under budgeted by \$5 to \$7 million, but any budget shortage should be offset by savings from unfilled positions.



Personnel Services - This labor-driven line item represents \$208,227,221 of expenses \$5,464,748 higher than FY 2020-2021 budget amount. Personnel Services includes costs for salaries, overtime, holiday pay, duty disability pay, and longevity payments. For the fiscal years 2018 through 2020, the City averaged \$11.4 million in duty disability salary costs. In the 2020-2021 fiscal year, the actual costs totaled \$11 million as of April 29, 2021. This year the City has recommended a budget for disability salary costs at \$6.1 million, a potential year-over-year decrease of \$4.9 million. We find it disconcerting to reduce this budget item so significantly, as accidents and illness are inevitable in some circumstances. It is wise to be cautious in such instances.

Fringe Benefits - The average total fringe benefit cost for fiscal years 2017-2020 is \$132,353,031 and the City is projecting to be around that figure in fiscal year 2021. The recommended budget amount for the Fringe benefit category is \$162,388,088, which appears to be over budgeted for fiscal year 2022.

Judgement and Claims				
Fiscal Year 2018 Actual	Fiscal Year 2019 Actual	Fiscal Year 2020 Actual	Fiscal Year 2021 Year-to-Date Actual	2021-2022 Recommended Budget
\$ 6,931,482	\$ 3,075,902	\$ 6,625,129	\$ 1,649,064	\$ 3,000,000

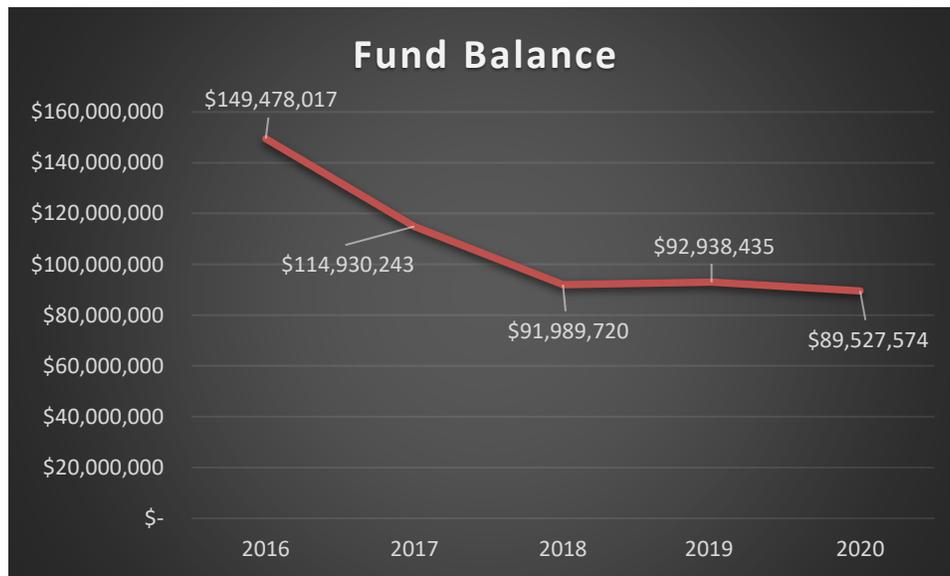
Judgement and Claims - Based on previous years actuals, judgement and claims: cost to the city of Buffalo we believe the recommended budget amount of \$3,000,000 is too low for budgeted year 2021-2022. Over the past three fiscal years (2018-2020) we have averaged annual net payments of \$5,544,171. In addition, it must be noted that currently there are zero funds in the unassigned fund balance account to cover judgement and claims cost exceeding budgeted amount.

Fund Balance

The City’s reserves, known as Fund Balance, acts as a savings account for the City. Unfortunately, in recent years it has been depleted due to budget shortfalls. \$109 million in reserves have been depleted over the past ten years, and with \$17.2 million potentially needed for the current year (Not counting the receipt of any federal stimulus funding).

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 could completely be depleted at the end of the current fiscal year, with the committed Emergency Stabilization (Rainy-Day) fund balance to cover additional shortfalls in the current year, since Generally Accepted Accounting Principles do not allow negative unassigned fund balance if there is still assigned and committed fund balance. We probably won’t be in a zero position this

year, as there should be enough Covid-19 revenue losses through 6/30/2021 that will be available for reimbursement through the stimulus funding.



Credit Rating Agencies - Although both Moody’s Investor Services and Standard & Poor’s Global Ratings have noted financial issues in their most recent rating reports. The City of Buffalo ratings remain strong at A1 and A+ respectively. These strong ratings along with strong demand for the City’s credit have allowed the Comptroller’s office to obtain historically low interest rates on the City’s April 2021 Capital Improvement borrowing.

Four-Year Financial Plan

Additional information is needed from the Administration in order for the Department of Audit and Control Personnel to accurately review the City Four Year Financial Plan. To ensure the adequacy of the financial plan we require the following information from the Administration:

- A report detailing the amount of the Federal relief funds (American Rescue Plan) that will be used in FY 2022-2023 budget.
- Prior Four Year Plans included increases in the property tax levy increases that have failed to materialize to date. Specific timeline of implementation recommended.

The annual sales tax growth appears to be reasonable and the Four-Year Plan does not contain sufficient data to support the outcomes projected. It is important to further note the absence of a Fund Balance Replenishment Plan.

Conclusion

Although the pandemic continues to negatively impact the economy there are positive signs that the economy is beginning to rebound. While challenges to a full economic recovery remain, the implied estimates of revenue and appropriations in the recommended budget appear to be fiscally sustainable and structurally sound as per the Department of Audit and Control staff analysis.

As reported, the City of Buffalo will receive an unprecedented amount from the American Rescue Plan which will replenish revenues negatively impacted by the pandemic. It must be noted that such funding is not sustainable long term and should not be counted on beyond the guidelines issued by the United States Department of Treasury. It is highly recommended that the Administration and Common Council in conjunction with the Buffalo Fiscal Stability Authority develop a comprehensive plan on the use of Federal Stimulus Funding.

The Comptroller's Office personnel will continue the role of monitoring revenues, expenditures, debt and cash trends and look forward to implementing the industry's best practices to protect the city's financial stability.