



2014 FISCAL PROFILE

CITY OF BUFFALO

Overview

The City of Buffalo is the second largest city by population in New York State, and is the center of the Buffalo-Niagara Falls Metropolitan Area made up of Erie and Niagara counties. The City was incorporated in 1832; by 1900, it was the eighth largest city in the United States. Over the last six decades, Buffalo has lost more than half its population. The rate of decline was fastest from 1950 to 1980 and has slowed since. By 2010, it had 261,310 people and had fallen to the 70th largest city in the country.

Buffalo was a major transportation and manufacturing center during its growth years. Like many other "Rust Belt" cities, Buffalo later suffered a decline as transportation patterns shifted and manufacturing facilities shut down. However, Buffalo still benefits from its location on the Canadian border and the City, with State and private sector support, has recently made significant efforts to promote new development, including a sports arena and other notable projects in the health care and education sectors.

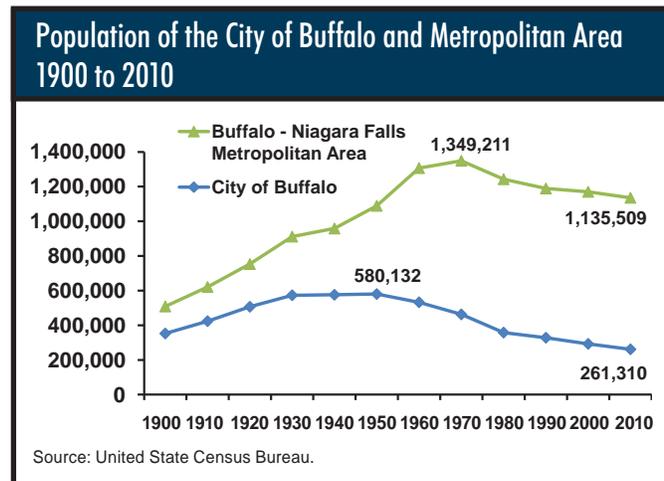
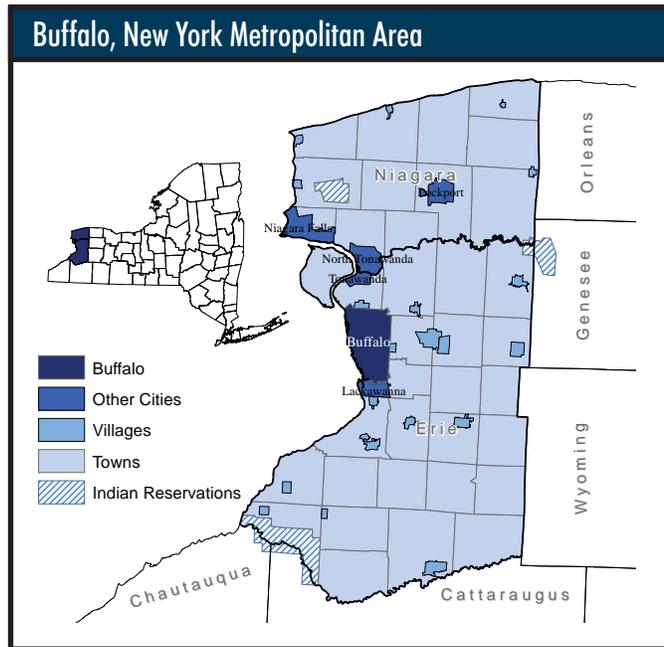
Buffalo has a dependent city school district, which means the City must raise and collect property taxes and issue debt on the school district's behalf. This affects the City's ability to stay within State limits on property taxes and debt.

- Buffalo collected \$447.4 million in revenues in 2012, 20 percent more than in 2002. This represents a 2.3 percent average annual rate of increase, compared to 3.3 percent for all cities in New York. The City's expenditures increased by 2.3 percent over this period, compared to 3.3 percent for all cities.
- In July 2012, after the City had three consecutive fiscal years of adopting and adhering to budgets which did not show a deficit, and was certified as having access for its debt in the general public market, the Buffalo Fiscal Stability Authority ended its control of the City's finances.
- Buffalo's unemployment rate in 2012 was 10.9 percent, higher than the statewide rate of 8.5 percent. The City's rate was down to 8.4 percent in November 2013.
- The full value of property in Buffalo increased by 23 percent from 2002 to 2013, less than half the growth rate of 55 percent for all of the cities in the State.
- Buffalo had exhausted 71 percent of its Constitutional Tax Limit as of 2012, much higher than the 44 percent level for the median city, but similar to that of other cities with dependent school districts, where the range is 68 percent to 75 percent. Buffalo had exhausted 92 percent in 2006.

Population and Economic Factors

The population of the City of Buffalo reached a peak of 580,132 in 1950. It has since declined by more than half, to 261,310 in 2010. The rate of decline was most rapid from 1950 to 1980, and has slowed since. Initially, Buffalo's population loss was balanced by a population gain in the City's suburbs. However, the metropolitan area as a whole has also been losing population since 1970.

Buffalo's unemployment rate in 2012 was 10.9 percent, compared to the State rate of 8.5 percent. The City's unemployment rate was over 10 percent from 2009 to 2012; by November 2013 it had declined to 8.4 percent. The City's median household income in 2011 was \$30,230, lower than that of the median city in the State (\$38,699), and lower than for the State as a whole (\$56,951).¹ The rate of poverty among Buffalo's children was 44 percent, far above the median city rate of 28.1 percent, and over twice the statewide rate of 20.3 percent.



Tax Base

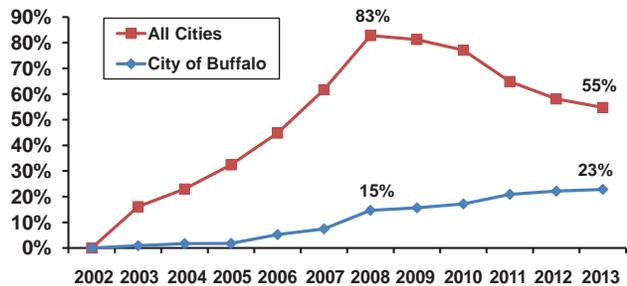
The full value of property in Buffalo increased at an average annual rate of 1.9 percent from 2002 to 2013, less than half the average annual growth rate of 4.0 percent for all of the cities in the State. Full value in all cities increased rapidly from 2002 to 2008, and then declined through 2013. Full value in Buffalo increased steadily throughout the period from 2002 through 2013, though at a much slower rate than for all cities.

In 2011, 42.6 percent of houses in Buffalo were owner-occupied, a lower share than the 50.5 percent for the median city in the State. The City's median home value of \$66,200 was a third lower than that of the median city in the State (\$99,700). Buffalo's property vacancy rate was 17.8 percent, in comparison to the median city rate of 10.4 percent.

By 2012, Buffalo had exhausted 71 percent of its Constitutional Tax Limit (CTL), much higher than the 44 percent level for the median city.² Buffalo, as is the case with the other "Big Four" cities, has a dependent school district which is financed through the City's property tax levy, unlike other city school districts which can levy their own property taxes.³ The range of CTL exhausted for the Big Four cities was 68 percent to 75 percent in 2012. In 2013, Buffalo's level of CTL exhausted declined slightly to 70 percent, compared with 67 percent to 81 percent for the other Big Four cities. Buffalo's CTL has been declining for several years and was as high as 92 percent in 2006.

The City has been making progress in promoting new development. Over \$2.2 billion in new construction is underway, including the \$172 million, privately-financed HarborCenter, and the \$375 million University of Buffalo School of Medicine.

Cumulative Change in Full Value, 2002-2013



Source: Office of the State Comptroller.
Only includes cities that have reported 2013 full value data.

Percentage of Constitutional Tax Limit Exhausted

Big Four Cities	2012	2013
Buffalo	71.1%	70.3%
Rochester	74.9%	NA
Syracuse	68.6%	67.5%
Yonkers	68.2%	80.9%

NA - Not available as of Sept. 30, 2013.
Source: Office of the State Comptroller.

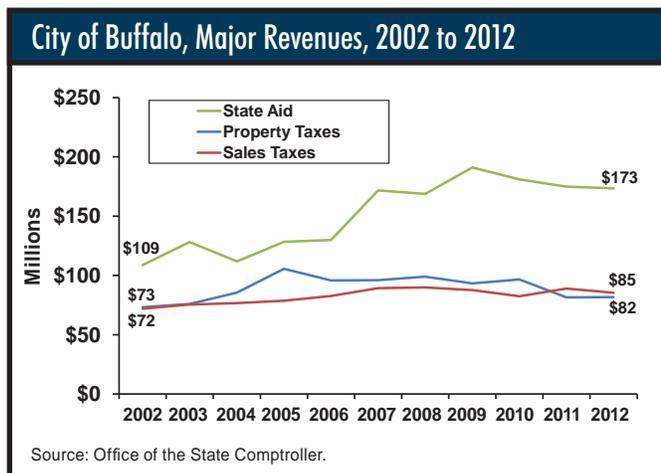
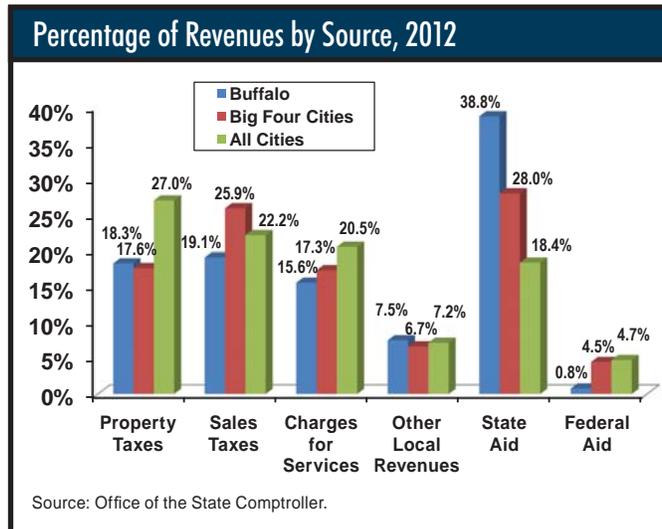
Revenues and Expenditures

Buffalo collected \$447.4 million in revenues in 2012, 20 percent more than in 2002, for an average annual increase of 2.3 percent over that period. This compares to nearly 3.3 percent per year, on average, for all cities in the State. The average annual increase in revenues for the Big Four cities was 3.3 percent over the same period of time.

State aid was the largest revenue source for Buffalo in 2012, and made up a greater percentage (39 percent) of the City's revenues than for any other city in the State.⁴ Buffalo's State aid per capita was \$664, compared with \$573 for the Big Four cities and \$347 for all cities in the State. The City's State aid increased \$65 million from 2002-2012, at a 4.8 percent average annual rate, which was about the average rate of increase for Big Four cities, but faster than for all cities statewide (4.4 percent). Almost 95 percent of this State aid is from Aid and Incentives for Municipalities (AIM), which is the State's municipal revenue sharing program.

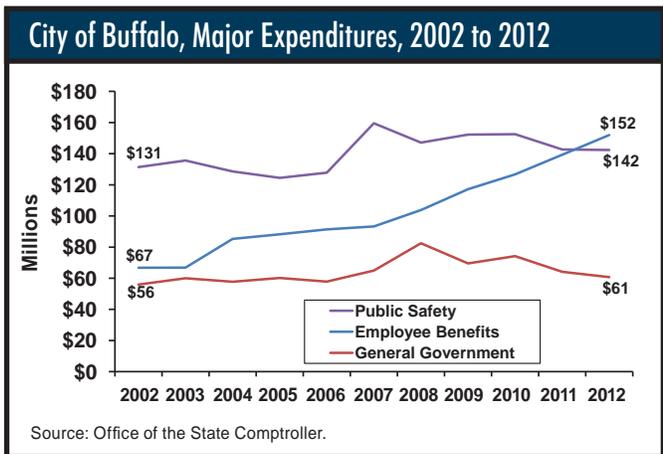
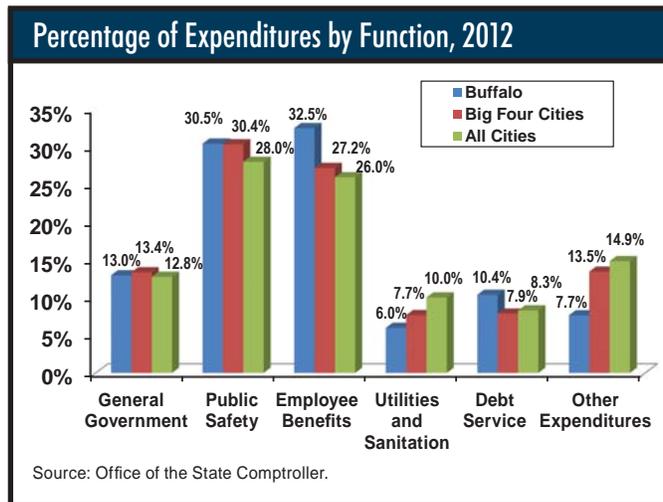
Buffalo received 19.1 percent of its revenues from sales tax, a lower portion than the 25.9 percent for the Big Four cities and slightly lower than the 22.2 percent share for all cities in the State.⁵ Sales tax revenue grew at a 1.7 percent average annual rate from 2002 to 2012, less than the 4.4 percent average annual rate for the Big Four cities and the 3.7 percent rate for all cities statewide. During the same period, the average inflation rate from 2002 to 2012 was 2.4 percent.⁶

In 2012, 18.3 percent of Buffalo's revenues were from real property taxes. This was just slightly higher than the 17.6 percent share for the other Big Four cities but less than the 27 percent for all cities in the State.⁷ Property tax revenues grew at an average annual rate of 1.1 percent, slower than the 2.4 percent for the Big Four cities and the 3.7 percent for all cities in the State.



Buffalo received only 0.8 percent of its revenue from federal aid in 2012, significantly less than the portion received by all cities (4.7 percent) and the average share for the Big Four cities (4.5 percent). The City saw a 77 percent drop in federal aid from 2002 to 2012. In 2002, Buffalo received over \$10 million in federal economic development aid, but none in 2012, accounting for most of this decline. Federal aid for all cities declined by about 7 percent from 2002 to 2012.

The Buffalo School District (or Buffalo Public Schools) is the City's dependent school district. Its revenues in 2012 were \$908.2 million, or more than twice the City's revenues. This included \$70.3 million in property tax revenue transferred from the City, which is about half of the City's total tax levy.⁸ Total School District revenues grew at a 4.5 percent average annual rate from 2002 to 2012. The dependent school district had the highest growth rate among those of the Big Four cities, the other three of which had growth rates between 2.9 percent and 4.3 percent.



The City of Buffalo's expenditures grew at an average annual rate of 2.3 percent between 2002 and 2012, compared to 3.3 percent for both the Big Four cities and all cities. As with most cities, public safety (police and fire services, etc.) and employee benefits costs (health insurance, retirement contributions, etc.) make up a large portion of expenditures – 63 percent of the whole.

Employee benefits grew at an 8.6 percent average annual rate from 2002 to 2012, close to the 8.8 percent average annual growth rate for the Big Four cities and the 8.7 percent average annual rate of growth for all cities. Both general government and public safety expenditures grew at a 0.8 percent average annual rate from 2002 to 2012. By comparison, general government grew at a 2.8 percent average annual rate for the Big Four cities and a 2.9 percent rate for all cities. Public safety costs grew at a 2.3 percent rate for the Big Four cities and a 2.7 percent rate for all cities.

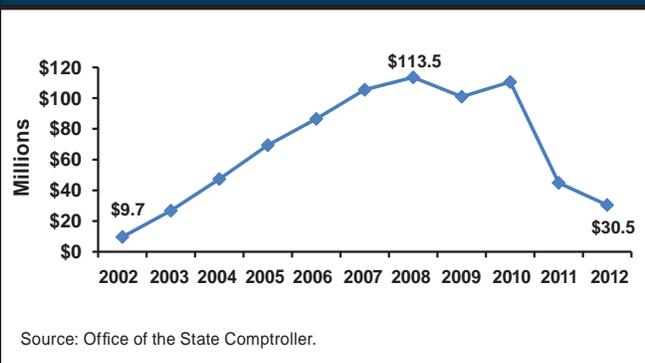
Buffalo Fiscal Stability Authority

The Buffalo Fiscal Stability Authority (BFSA) was established in 2003 after a determination by the New York State Legislature that the City faced a severe fiscal crisis that could not be resolved without State assistance. The BFSA entered a control period immediately upon its creation. During the control period, the BFSA: approved contracts, including collective bargaining agreements; approved the terms of any borrowing; approved the multiyear financial plan that the City was required to have; and imposed a wage freeze. In July 2012, after the City had three consecutive fiscal years of adopting and adhering to balanced budgets and was certified as having access for its debt in the general public market, BFSA entered into an advisory period.⁹ During the advisory period, the BFSA is generally limited to reviewing and commenting on proposed borrowing, the City's budget and financial management, and auditing the City's compliance with financial plans. However, the control period could be reimposed if the City fails to meet certain standards, such as adopting a balanced budget or making payments on debt when due. The advisory period will last until 2037, unless a control period is reimposed.

Current Budget Condition

Buffalo built up a significant available fund balance between 2002 and 2008.¹⁰ This available fund balance in the general fund reached a peak of \$113.5 million in 2008 (33 percent of general fund expenditures). In this period, the City was required to balance its operational budget, which – with the help of additional State aid and wage freezes – resulted in actual surpluses being accumulated. In 2011, the available fund balance declined by \$65.6 million; it then declined an additional \$14.4 million to \$30.5 million (8.4 percent of expenditures) in 2012.

City of Buffalo - Available General Fund Balance, 2002-2012



The BFSA approved the initial draw-down of fund balance by the City as a part of Buffalo's response to the Great Recession, but has included warnings about the continued use of fund balance in its reviews of Buffalo's recent budgets. The BFSA noted that in addition to this available fund balance, the City has established a "Rainy Day Fund" with \$35.7 million as of June 30, 2012.¹¹ The BFSA also credits the City with spending restraint and reasonable revenue projections.¹²

The City's multiyear financial plan for Fiscal Year (FY) 2013-14 to FY 2016-17 includes a continued use of fund balance to balance budgets for the next four years, using almost all that is available by FY 2016-17. In the FY 2013-14 budget alone, \$12 million in fund balance is projected to be used. The BFSA review of the plan questioned projected increases in State aid that were not included in the State's own financial projections, as well as the possible overestimation of some other revenues and underestimation of some expenditures. The City has not concluded a new collective bargaining agreement with the police union since the imposition of the control period, and any additional costs from a new contract or from arbitration would add to the pressure on the City's budget.¹³

Bond Ratings and Debt

On April 1, 2013, Moody's Investors Service affirmed the City of Buffalo's A1 rating – indicating upper-medium grade and low credit risk – on all rated debt secured by the City's General Obligation (GO) pledge. The report states that the A1 rating reflects the City's overall solid reserves and liquidity despite current declines and structurally imbalanced budgets in the multiyear plan. The stable outlook reflects Moody's belief that the City's liquidity and reserve position will remain adequate. The elimination of the need for seasonal cash flow borrowing in the last five fiscal years provides evidence in support of this belief.¹⁴ Moody's has upgraded the City of Buffalo three times from Baa3 in 2003 to A1 in 2012.

The City remains exposed to risks associated with potential State aid cuts, open labor negotiations, ongoing litigation and stagnant growth related to a weak local economy. Moody's analysts believe that the City's current financial position and conservative fiscal management provide a satisfactory cushion against these risks. They consider the development of a multiyear plan and the oversight provided by BFSa to be key credit strengths for the City.¹⁵

Also on April 1, 2013, Standard & Poor's (S&P) assigned its A rating to the City of Buffalo. The rating reflects S&P's view of Buffalo's strong financial position, built up through positive operations. The S&P Report notes the City continues to face fiscal pressures, including economic vulnerability, limited revenue raising flexibility between the property tax levy cap and the City's reliance on state aid, and significant post-employment liabilities.¹⁶

Buffalo has debt service costs of 10.9 percent of total revenue, compared to 8.4 percent for the median city. Outstanding debt as a percentage of full value is 9.8 percent, nearly triple the 3.3 percent for the median city. Debt per capita for Buffalo is \$2,396, nearly double that of the median city at \$1,232. On the other hand, Buffalo's debt outstanding has been declining in recent years, from \$691.6 million in 2008 to \$626.2 million at the end of 2012.

Since the debt issued on behalf of the dependent school district is City debt, this adds to the City's debt burden. Partially to allow some relief to the City from school-related debts, the Joint Schools Construction Board was established in 2000 to facilitate the redevelopment of the City's education facilities. Since 2003, \$823 million in bonds to finance this redevelopment have been issued by the Erie County Industrial Development Agency.¹⁷

- ¹ In this report, figures for all cities and for median cities exclude New York City. State totals include New York City. U.S. Census Bureau, American Community Survey, five-year estimate: 2007-2011.
- ² The Constitutional Tax Limit caps the total amount of property tax a city can levy at 2 percent of the five-year average of its full value with certain exclusions.
- ³ The Big Four cities include all cities (except New York City) that have dependent school districts: Buffalo, Rochester, Syracuse and Yonkers.
- ⁴ Cities for which 2012 data was not available as of September 30, 2013: Amsterdam, Auburn, Binghamton, Ithaca, Long Beach and Mechanicville.
- ⁵ This includes the sales and use tax and other non-property taxes, including the City of Yonkers' income tax. The City of Buffalo receives a distribution from Erie County's sales tax collections. The amount of the distribution is determined by an agreement between the City and County, and determined by a formula. See Office of the State Comptroller, *Local Government Sales Taxes: 2010 Update*, "Appendix A", April 2010.
- ⁶ United State Department of Labor, Bureau of Labor Statistics, *Consumer Price Index, All Urban Consumers, US City Average (CPI-U)*.
- ⁷ Property taxes include real property taxes, assessments and other real property tax items, including payments in lieu of taxes.
- ⁸ The amount of the property tax transfer has been consistent since 2008, and the City is generally required to provide at least this much of its property tax levy to the school district, in accordance with the "maintenance of effort," Education Law, Section 2576 (5-b).
- ⁹ This certification was made jointly by the State Comptroller and the Buffalo City Comptroller.
- ¹⁰ For this purpose, "available fund balance" is all fund balance that is not restricted, committed, or appropriated.
- ¹¹ Buffalo's Rainy Day Fund is not a separate reserve fund, but a portion of the City's fund balance that is committed to cover non-recurring emergencies.
- ¹² Buffalo Fiscal Stability Authority, *Annual Report of the Buffalo Fiscal Stability Authority, Fiscal Year Ended June 30, 2013*, September 23, 2013.
- ¹³ BFSA, *Annual Report 2013; City of Buffalo, Four Year Financial Plan, 2013-14 to 2016-17*, May 1, 2013.
- ¹⁴ Moody's, *New Issue: Moody's assigns A1 and stable outlook to the City of Buffalo's (NY) \$7.6 million G.O. bonds and a MIG1 rating to \$17.8 million in Bond Anticipation Notes*, Series 2013, April 1, 2013.
- ¹⁵ Moody's, April 1, 2013.
- ¹⁶ Standard & Poor's, *Buffalo, NY's 2013 General Obligation Bonds Assigned 'A' Rating; Rating On Parity Debt Outstanding Affirmed*, April 1, 2013.
- ¹⁷ Buffalo Joint Schools Construction Board, www.buffaloschools.org/Finance.cfm?subpage=1524.

Buffalo vs. All Cities and New York State

Population 2010: 261,310	City of Buffalo	All Cities (excluding NYC)		New York State
		Median	Aggregate	
Demographic Statistics				
Percentage Change in Population, 1950-2010	-55%	-20%	-25%	31%
Percentage Change in Population, 2000-2010	-10.7%	0.5%	-1.4%	2.1%
Median Household Income, 2011	\$30,230	\$38,699	N/A	\$56,951
Child Poverty Rate, 2011	44.0%	28.1%	N/A	20.3%
Unemployment Rate, Annual 2012	10.9%	N/A	N/A	8.5%
Property Value Statistics				
Median Home Value, 2011	\$66,200	\$99,700	N/A	\$301,000
Owner-Occupied Housing Units, 2011	42.6%	50.5%	35.9%	54.8%
Property Vacancy Rate, 2011	17.8%	10.4%	10.0%	10.7%
Percentage of Property Value that is Tax Exempt, 2012	36.9%	33.0%	34.2%	26.7%
Revenue and Tax Statistics				
State Aid per Capita, 2012	\$663.95	\$196.36	\$346.95	N/A
Available General Fund Balance as a Percentage of Expenditures, 2012 ^(a)	8.4%	8.9%	7.1%	N/A
Constitutional Tax Limit Exhausted, 2012	71%	44%	N/A	N/A
Cash Ratio, 2012 ^(b)	116%	217%	122%	N/A
Debt Service as a Percentage of Revenues, 2012	10.9%	8.4%	8.3%	N/A

(a) For these purposes, available fund balance is all fund balance that is not restricted, committed, or appropriated.

(b) Cash Ratio is combined funds cash and investments divided by current liabilities.

Source: U.S. Census Bureau; New York Department of Taxation and Finance; New York State Labor Department; Office of the State Comptroller.

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