



BUFFALO BOARD OF EDUCATION

INTEROFFICE MEMORANDUM

FINANCE DEPARTMENT – ROOM 708 CITY HALL

DATE: January 7, 2020

TO: Dr. Kriner Cash, Superintendent
Buffalo Board of Education
Buffalo Fiscal Stability Authority

FROM: Geoffrey Pritchard, Chief Financial Officer

SUBJECT: **Update of Four Year Financial Plan – General Fund**

The purpose of this memo is to provide an interim update to the District’s Four Year Financial Plan (the Plan), including gap closing measures, originally adopted on June 20, 2017. The Plan was most recently revised and approved by the Board on April 17, 2019, and the most current update of financial information within the Plan was included in the District’s First Quarterly Financial Report issued on October 29, 2019. The next formal update of the Plan will be submitted to the Board in April 2020.

This memo will contain all the current updates through December 2019. However, readers should be familiar with the current Plan, along with previous updates, which can be found on the District’s Finance Department Home Page: <https://www.buffaloschools.org/Domain/51>.

Fiscal Performance to date

The District has met or exceeded its financial targets in every year of the plan completed, and so far through the First Quarterly Financial Report issued on October 29, 2019.

	2017/18 (Yr1)	2018/19 (Yr2)	2019/20 (Yr3)	2020/21 (Yr4)
	actual	actual	Projected**	projected***
Revenues				
Updated as of 10/29/2019	878.8	911.5	918.0	932.9
Original Plan on 6/20/2017	872.2	895.4	915.1	935.7
favorable/(unfavorable) variance	6.6	16.1	2.9	(2.8)
Expenditures				
Updated as of 10/29/2019	866.7	882.6	927.4	951.6
Original Plan on 6/20/2017	894.2	922.6	941.8	959.9
(favorable)/unfavorable variance	(27.5)	(40.0)	(14.4)	(8.3)
Surplus/(deficit)				
Updated as of 10/29/2019	12.1	28.9	(9.4)	(18.7)
Original Plan on 6/20/2017	(22.0)	(27.2)	(26.7)	(24.2)
(favorable)/unfavorable variance	34.1	56.1	17.3	5.5
Total Fund Balance				
Updated as of 10/29/2019	194.7	223.6	214.2	214.2*
Original Plan on 6/20/2017	142.4	126.4	118.4	118.4
favorable/(unfavorable) variance	52.3	97.2	95.8	95.8
* Plan calls for zero fund balance usage by yr 4; if fund balance usage required, as projections indicate, fund bal. will be lower				
** as of October 29, 2019 - First Quarter Financial Report				
*** as of April 17, 2019; not updated for 2020-21 budget process				

Based on preliminary data used to prepare the Second Quarterly Financial Report which will be distributed in late January, we are projecting an improvement in our 2019-20 results, with the year ending in a deficit between zero and \$5.0 million, which compares favorably to the projected deficits in the adopted budget (\$10.0 million) and projected on October 29, 2019 (\$9.4 million). Each month, our estimates will become more refined as we get closer to the end of the fiscal year.

Status of Major Initiatives Undertaken

Each of the items below are an update to the April 17, 2019 plan and include any changes from the most recent update through January 7, 2020. Note that gaps in the numbering system relate to headers and spaces in the Plan document.

Maximizing revenues

8 – Revenue/lobbying – The District continues to focus heavily in this area. The 2020-21 legislative request is expected to be completed in February 2020, with the inclusion of several additional requests relative to charter schools.

8a – Additional revenue from the City of Buffalo – The District continues to request increases in the annual maintenance of effort amount from the City. Additionally, the District is exploring how it can obtain interest on its own cash balances that the City currently invests and retains the interest. Further, the District has requested an update on the promised first \$200,000 from the City's recently established charitable donation fund.

9 – Revenue enhancement – The District has increased State and Federal revenues by millions of dollars, by implementing improved procedures and systems of data collection. **See Attachment 1** for a detailed listing of some of the most significant revenue enhancements undertaken over the last several years.

10 – Additional fund balance – As noted above, the District built substantial fund balance reserves over the last 10 years of the current U.S. economic expansion. The District has had surpluses in three of the last four years. However, because fund balance is like a bank account, its utilization in District operations can only lead to future budget deficits and budget cuts if recurring revenues don't match recurring expenditures.

Efficiencies and savings

13 – Vacancy contingency – The District implemented a \$2.0 million vacancy contingency in the 2018-19 budget and continues to maintain it. However, this is another area where the District must be careful – budgeting for vacant positions that we are actively attempting to fill could result in a significant unbudgeted expenditures if these positions are filled. \$2.0 million remains a reasonable number at this point.

14 – Retiree health insurance – Reductions in the cost of retiree health insurance has been one of the District's largest fiscal cost savings initiatives and as has been outlined previously. Significant savings have accrued from the conversion of nearly 1500 retirees into Medicare Advantage, negotiating better drug rebates, converting to an Employer Group Waiver Program (EGWP) to increase federal subsidies on prescription drugs, and effectively eliminating the cosmetic surgery rider. Each of these initiatives have saved the District millions annually and allowed funds to be deployed to the classroom instead of legacy costs.

In late 2019, District issued an RFP for Medicare Advantage and is converting voluntary enrollments to Independent Health's offering, which is projected to save up to \$0.9 million annually beginning in 2020.

15 – Employee health insurance – savings here have largely been accomplished through collective bargaining for employee contributions and increased co-pays. The District's Other Post Employment Benefit (OPEB) liability has been reduced from \$2.9 billion on June 30, 2016 to \$2.4 billion on June 30, 2019. Over the original Plan's four years, total health insurance costs (for actives and retirees) are now projected to be nearly \$50 million lower than originally projected, with the majority being related to retiree health insurance.

The District is beginning an RFP process for employee health insurance in early 2020, with an expected implementation of January 1, 2021. Savings cannot be projected at this time. Additionally, the District plans to schedule a dependent audit in the near future, which is expected to yield \$0.5 million.

16 – Substitute teacher costs – After implementing cost controls several years ago, substitute teacher costs have been in a range of \$7.5 million to \$7.9 million annually over the last four years, even after settling the sub union contract at an estimated \$1.0 million annual cost. Through November 2019, the 2019-20 year is trending in that range.

17 - Nursing costs – Fiscal year 2018-19 costs of nursing was approximately \$1.4 million below fiscal year 2017-18 as a result of the change in vendors from a new RFP.

18 – Occupational and physical therapy – One year (fiscal year 2018-19) and three year (fiscal years 2015-17 to 2018-19) savings for OTPT were \$0.7 million and \$2.9 million, respectively less than fiscal year 2015-16.

19 – Vendor analysis – See examples of 14 and 18 for results of significant savings. On a smaller scale the Purchase Department continues to implement best practice procedures.

20 – Textbooks – No additional updates.

21 – Facility closure – school 86 – This facility is still in use.

22 – Facility closure – school 187 – Staff have vacated this facility.

23 – Overtime – Overtime costs have been in a range of \$1.6 million to \$1.9 million from 2016-17 through 2018-19, after peaking at \$2.6 million in 2015-16. As of November 2019, overtime projections are trending towards the high end of the range, or \$1.9 million.

24 – Yellow bus transportation – The District has an open RFP for yellow bus transportation presently. Costs are expected to increase approximately 15% or \$6.2 million in the first year of this contract. The net annual cost impact after transportation aid is \$6.2 million, \$0.9 million, \$1.0 million, \$1.2 million, and \$1.3 million over the five year term of the contract.

25 – Public carrier transportation – The current contract expires after the 2019-20 fiscal year, with negotiations set to begin shortly for 2020-21.

26 – Workers comp, medical leave, administrative leave – Effective 7/1/19, after issuing an RFP, the District has a new third party administrator for worker comp administrative services; however, it is too early to project savings as a result of this change. Long term trends are in the

table below and should be understood in the context of a growing workforce, which has increased 619 FTEs since 2014-15.

Average Staff FTE on Leaves of Absences			
	Medical Leave of Absence	Paid Admin Leave	Workers Comp
15-16			70
16-17		38	71
17-18	280	24	56
18-19	315	18	60
19-20 (YTD)	287	19	80

27 – Master Scheduler for high schools – This has not been implemented.

28 – Consolidation of funds – This has not been implemented.

29 – Special education – centralize CSE chairs – This was implemented in the 2018-19 budget, resulting in a roughly \$1.0 million budgetary savings per year.

Other cost reductions

32 – Reduce or eliminate general contingency – No reductions planned at this time.

33 – Reduce or eliminate the contract settlement contingency – No reductions planned at this time.

34 – Reduce or eliminate non-mandated programs in the general fund – No reductions planned at this time.

35 – Emerson II – The District is scheduled to move its Buffalo School of Culinary Arts & Hospitality Management into its leased facilities in January 2020. The cost of the lease is included in the budget for fiscal year 2019-20 and beyond in the Plan.

36 – Reductions – central office through efficiencies and attrition – No reductions planned at this time.

37 – Reduction – instructional and support – No reductions planned at this time.

Grants through national foundations

40 – Grants through national foundations – The District has continued to make progress in this area, as noted below:

- a) During 2018-19, the Community Foundation of Greater Buffalo administered a \$360,000 planning grant from the Ralph C Wilson Foundation to determine needed improvements at 11 City park and District athletic sites.

This planning grant was fully implemented, accomplishing its goal of producing redesign plans for 11 City and District athletic fields. After engaging community stakeholders, architects worked collaboratively with staff members from the City of Buffalo, Buffalo Public Schools, and Community Foundation for Greater Buffalo to

finalize renderings. The joint collaboration will now continue, transitioning to the project and funding implementation phase.

- b) During 2018-19, the District received a three year grant award of \$1,000,000 from the Kellogg Foundation that will support children's success in school through our innovative enrichment curriculum for all students in Pre-K through 4.

Now in its second year, the District has met its initial first year goals of phasing in teacher training in gifted & talented instructional pedagogy. The grant also provided for the expansion of exposure for students to the cultural arts and landmark history of Buffalo. All of those objectives were also achieved for the first year.

- c) Under the leadership and facilitation of Say Yes Buffalo, the District is partnering with five local Institutes of Higher Education (IHE) to support a best in class pre-k through higher education data system with the support of a national foundation. The purpose is to monitor and implement wrap-around services on each campus to support students through the completion of a college degree.

The District will receive \$350,000 over two years from the Gates Foundation to develop and implement a joint data system with local higher education institutions. The first installment of \$175,000 was received by the District for 2019-2020. Additionally, Say Yes Buffalo has hired a staff member with the required technical expertise to lead the effort. That individual will be housed in District offices to facilitate seamless collaboration.

- d) Any revenues at this time are expected to be supplemental and are not included as future deficit closing actions.

Conclusion and Future Considerations

With these initiatives and others, along with conservative budgeting and conservative spending, the District has accomplished strong financial performance over the last several years, while also improving student performance. The District is now in the third year of the Plan, and has begun the 2020-21 budget process, which is the final year of the original Plan.

The Plan assumes incremental increases in Foundation Aid every year, and for the last eight years, the District has received increased Foundation Aid. The State is indicating major deficit of over \$6.1 billion in their 2020-21 budget, with increasing deficits in future years. Should Foundation Aid increases stop or be significantly reduced, the projected deficits for the District in 2020-21 and beyond will grow, requiring action to balance the budget. We expect to have an indication by mid-January with the release of the Governor's proposed budget.

Attachment 1

REVENUE INCREASES FROM AID MAXIMIZATION PROGRAM

CATEGORY	AID YEAR					
	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20 (proj)	FY 20-21 (proj)
STAC - RSU FORMS - revised 3 years prior claims	618,000	-	-	-	-	-
*SAMS - FORM FT - revised Schedule K for non allowable pupil counts to exclude students with IEP/Medical reasons within 1.5 mile limit, received state approval for portion of security guards to count in aidable wages and benefits.	180,000	180,000	180,000	180,000	180,000	180,000
*KINNEY SYSTEM - MEDICAID REIMBURSEMENTS - identified and resolved issue of Parent Consent Forms	1,104,096	3,446,992	3,684,493	3,751,631	3,500,000	3,500,000
*TUITION BILLINGS TO OTHER DISTRICTS, AGENCIES, NON RES AT NON PUBLICS & CHARTERS - switch to actual cost method of billing and better data collection for services provided by BPS staff.	-	280,568	497,872	802,687	802,000	802,000
SAMS - FORM A & Related STAC - student count increases through better data collection. Includes Form A SPED Counts, Declassified & Home/Hospital counts and additional STAC counts.	-	-	250,000	500,000	750,000	750,000
SAMS - FORM A - Schedule B - dual enrolled students attending Non Publics and receiving SPED Services from BPS for less than 20% of the day.	-	64,500	153,450	240,000	240,000	240,000
*FRPL COUNTS - we began direct mail campaigns late in 17-18 and 18-19. Expanded program in 19-20 to include distribution of HH forms tat school level.	-	-	35,000	58,000	175,000	526,250
*REVIEW OF AGENCY BILLINGS - reimbursements provided by BAKER SERVICES and FALK. The BAKER issue was a one time fix while the FALK issue is complicated and could result in large prior year clawbacks.	1,100,000	-	-	456,996	500,000	500,000
STAC IY and HOMELESS programs. Revised IY claims and new HOMELESS procedures.	-	-	-	400,000	481,000	400,000
*HEALTH SERVICES BILLING TO OTHER DISTRICTS - improved data collection and review.	-	-	-	371,848	371,000	371,000
INDIRECT COST RECALCULATION (on grants not spent to limit) - increased State Approved Indirect Rate from 2.5% to 3.1% through better data collection.	-	-	-	-	48,000	48,000
TOTALS	3,002,096	3,972,060	4,800,815	6,761,162	7,047,000	7,317,250
NOTES:						
* - denotes reoccurring gains through change in standard procedures as a result of AID MAX projects.						