

Buffalo Public Schools

Financial Analysis of New Commissary and Cook/Chill Production Model



Finance & Ops Committee – Wednesday September 6, 2023

Dr. Tonja Williams - Superintendent

Jim Barnes – CFO

Background Information

- At the end of fiscal year 2022 the Audited Financial Statements showed an Assigned Fund Balance within the Food Service Fund of \$37,794,584 and a Total Fund Balance of \$39,124,272 (see audit page 11).
- Within the auditors Management Letter, it was noted that this amount exceeds the NYSED regulation that fund balance should not exceed 3 months average expenditures (approximately \$7.5 million).
- In response to the auditor's observations, a plan for Reducing the Excess Fund Balance was submitted and approved by the NYSED Child and Nutrition Program Administration. This plan included equipment and technology upgrades, a new building lease, contract settlement costs and hiring additional employees. This did NOT constitute State Approval for this specific project.
- It's important to note that the recently approved 4 Year Plan was based upon the assumption that the Food Service, Grant and Capital Project Funds would be self balancing and not require the use of General Funds for any purpose (page 4). The most recent financing & cash flow projections show that General Funds will be required to partially fund this project.

Transaction Assumptions

- An analysis of various options has been completed; a straight lease with an annual escalation clause is the most expensive option and the State Education facilities regulations prohibit a lease with a purchase option. The current option being analyzed is a straight purchase from the developer.
- BPS legal will approach the City of Buffalo seeking a resolution confirming the City of Buffalo's authority to hold title for a Commissary building purchased by BPS.
- Due to constraints on FS funds being used to purchase a building, BPS General Fund will purchase the building. BPS General Fund and BPS FS will enter an arrangement whereby BPS FS repays the purchase price to the General Fund. The exact timing and amounts depend upon the operating results of the FS fund going forward (see projections).
- The proposed transaction described above has not yet been approved by the State.
- The current arrangement with the developer (McGuire) is covered under the terms of a Board Resolution dated 9/8/22 and a fully executed Designated Developer Agreement dated 2/10/23. Note this agreement includes the developers purchase of property for this project and a lease to own agreement with BPS. McGuire has incurred approximately \$1 million in expenses to date that they may seek reimbursement from the District if the project is cancelled.
- Current Lease ends Sept. 2025. Construction completion date estimated March 2025.

Assumptions Underlying the Projections

- The total cost of this project is approximately \$44,223,000.
- This amount is greater than the current Food Service Fund balance.
- It will take funding from the General Fund to complete this project.
- FS projections include NO overall increase in staff and the award of a \$5 million grant for equipment purchases.
- Pre COVID (2015-2019) FS was generating small deficits in 4 out of the 5 years. Surpluses were recorded in 2020 - 2022 due to the significant increases in reimbursement rates due to CARES/CRRSA/ARPA funding. Our projections going forward show small deficits largely due to new staff contracts, increased food costs and the unknowns associated with the move and the Cook/Chill model.
- Our external auditors reviewed and had no recommended changes to our projections and expressed some concern over potential construction and/or equipment cost overruns and the ability of FS to generate surpluses in the future. A contingency for these concerns was built into the financial model.

Summary of Investment/Costs, Cash Flow Analysis & Proposed Financing (6 year Outlook)

Investment/Costs:		NOTES
Lease costs prior to Purchase Option	-	
Purchase Price	38,850,000	Per McGuire "Budget Update" 8-14-23
Soft Costs (architect costs)	-	Included in purchase price (1.6 mill arch fees)
Equipment Costs Required	5,373,681	Detailed list provided by FS
Total	44,223,681	
Financing:		
Use of Food Service Fund Balance	28,000,000	
USDA Grant for Equipment*	5,000,000	
Use of General Fund Fund Balance**	11,223,681	Based upon detailed cash flow model. Includes \$4.5 million contingency for cost overruns and auditors concern over projected expenditures and revenues.
Total	44,223,681	
Notes:		
* - it is represented by FS that these funds are available in 2024 to cover the cost of equipment.		
** - this number could increase or decrease based upon the projected deficits in FS going forward.		

Cash Flow Projection & Impact on District Reserves

FOOD SERVICE PROJECTION AND DISTRICT RESERVES											
INCORPORATING PROPOSED NEW COMMISSARY											
REVISED		8/15/2023									
ORG	OBJ	PROJ	ACCOUNT DESCRIPTION	2023 Projected	2024 Budget	2025 Projected	2026 Projected	2027 Projected	2028 Projected	2029 Projected	
			(Surplus)/Deficit	(574,101)	908,488	1,203,377	28,675,732	783,046	619,759	458,240	
			Beginning FOOD SERVICE FUND BALANCE	38,631,828	39,205,929	38,297,441	37,094,063	8,418,331	7,635,285	7,015,525	
			Ending FOOD SERVICE FUND BALANCE	39,205,929	38,297,441	37,094,063	8,418,331	7,635,285	7,015,525	6,557,285	
			Beginning General Fund FUND BALANCE	324,000,000	334,000,000	296,300,000	266,900,000	215,950,000	177,650,000	177,650,000	
			Operating Deficit 4 Year Plan	10,000,000	(37,700,000)	(29,400,000)	(40,100,000)	(38,300,000)			
			Purchase Option from MaGuire YEAR 1	-	-	-	(38,850,000)				
			LEASE PYMENTS TO GENERAL FUND	-	-	-	28,000,000	-	-	-	
			Ending General Fund FUND BALANCE	334,000,000	296,300,000	266,900,000	215,950,000	177,650,000	177,650,000	177,650,000	
			PER 4 YEAR PLAN General Fund- JUNE 9, 2023	321,000,000	283,300,000	253,900,000	213,800,000	175,500,000			

Next Steps

- We met with the BFSA regarding this project. Overall initial reaction was positive. Final report is pending.
- Obtain official State approval for the direct purchase option at the cost and financing per the prior slide.
- Seek Superintendent and Board authority to begin communications with the City of Buffalo, regarding purchase since they will hold title.
- Request the Board's authority to purchase a building and work with the City of Buffalo to hold title to same per Ed. Law 2556 and 2557.
- Obtain Board's approval for the subject purchase agreement.