September 10, 2012

Honorable Shawn T. Wooden, Council President, and
Members of the Court of Common Council
City of Hartford
550 Main Street
Hartford, CT 06103

RE: Fourth Quarter Financial Report

Dear Council President Wooden:

I accordance with Chapter V, Section 2(f) of the Hartford City Charter, I am hereby submitting to you a report of the financial transactions of Hartford City Government during the fourth quarter of the 2011-12 fiscal year. I am pleased to report that the City concluded the year with a positive balance. The attached report provides details on our financial condition and I look forward to discussing it with you.

Respectfully submitted,

Pedro E. Segarra
Mayor

550 Main Street
Hartford, Connecticut 06103
Telephone (860) 753-6500
Facsimile (860) 712-6505
September 10, 2012

Honorable Shawn Wooden, Council President, and
Members of the Court of Common Council
City of Hartford
550 Main Street
Hartford, CT 06103

RE: Fourth Quarter Financial Report

Dear Council President Wooden:

In accordance with Chapter V, Section 2(j) of the Hartford City Charter, I am hereby submitting to you a report of the financial transactions of Hartford City Government during the 2011-2012 fiscal year. In addition to the year-end report of revenues and expenditures, attached to this letter, are the year end reports which include Performance Measures results for departments, the Quality of Life Report, an Internal Audit Report, and a report of actions taken in response to Non-Financial Resolutions. These other reports can be viewed on the City's web site at the following address:

http://managementandbudget.hartford.gov/webfiles/reports_and_presentations.aspx

For the fiscal year ending June 30, 2012, I am pleased to report that the City had a favorable variance to budget of $3,094,815. (This exact number remains subject to review by the external auditors). Although the City as a whole had a positive year end balance to budget, four departments exceeded their budget and will require a 4th quarter transfer. (A separate resolution has been presented to Council which would authorize the 4th quarter transfer).

For fiscal year 2011-12 the favorable budget variance resulted in an increase of $3.1 million in the unallocated fund reserve – from $22.5 to $25.6 million. This fund balance represents 4.7% of FY 2011-2012 expenditures (compared to 3.9% in FY 2010-11), or an increase of 14% over the amount committed to the fund balance last year. On the following page is a graph showing the change in fund balance for the last seven years.
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As we begin the 2012-2013 Fiscal Year, my administration will continue to focus on improved customer service, enhanced individual accountability and strong fiscal stewardship in a time of great economic uncertainty and increases in benefit expenses — including pension obligations — that are putting pressure on balancing the City's budget. It is also essential that we continue to closely examine the efficiency and effectiveness of all of City government. We made great strides last year by keeping staffing levels down and employing personnel management strategies, and I intend to continue assessing our service delivery models to ensure that the residents and taxpayers are met with a government that properly addresses their needs in a timely manner.

By continuing to work in a cooperative and collaborative manner, building stronger and longer-lasting partnerships, and better leveraging those that have paid the greatest dividends, we will no doubt continue moving Connecticut's Capital City forward in meaningful and lasting ways. While great progress has been made to invest in critical infrastructure and programs, revive long-stalled projects, and move forward on critical policy items, we still have significant challenges that remain before us.

As it has been a hallmark of my administration, I look forward to continuing to work in concert with the Court of Common Council to achieve our common goals — goals that focus on rebuilding our neighborhoods, creating jobs, balancing the budget, and encouraging innovation and entrepreneurship.

Respectfully submitted,

Pedro E. Segarra
Mayor
The increase in the unallocated fund reserve moves us closer to our goal of maintaining a fund balance of 7.5% of expenditures, or approximately $41 million. It is my plan and expectation that we will meet this goal over the next several years. An adequate fund balance of this proportion is regarded by the bond rating agencies as an important factor in ensuring the marketability of City debt and favorable interest rates. I continue to recommend, therefore, that the City make every effort to avoid using the fund balance for either the current operating budget or in developing next year's operating budget.

The following chart highlights the fiscal year-end 2011-12 results for both revenues and expenditures.

<table>
<thead>
<tr>
<th>General Fund Budget (Dollars in Millions)</th>
<th>Revised Budget FY 11-12</th>
<th>Year-End Actual FY 11-12</th>
<th>Variance $</th>
<th>Variance %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$547.8</td>
<td>$486.8</td>
<td>$9.8</td>
<td>0.15%</td>
</tr>
<tr>
<td>Expenditures</td>
<td>$478.2</td>
<td>$455.5</td>
<td>$2.3</td>
<td>0.42%</td>
</tr>
<tr>
<td>* Year End Variance</td>
<td></td>
<td></td>
<td>$3.1</td>
<td>0.57%</td>
</tr>
</tbody>
</table>

*Subject to external auditor review. Figures are rounded.

City government has also made further progress in delivering consistent, stable and quality services to residents even in a financially difficult environment. For example, I have reversed the depletion of our fund balance during Fiscal Years 2007-08 and 2008-09 of more than $18 million, and have instead added $9.4 million during the last three fiscal years. This has stabilized our bond rating outlook, reduced the size of city-wide government while investing in critical areas like the Department of Public Works and Licensing & Inspections, increased opportunities for minority and Hartford-based firms who wish to do business with the City of Hartford, realigned functions to improve and coordinate services to our families, children and youth, and implemented various measurement models to better control overtime costs and best determine future departmental staffing needs.
REVENUE PROJECTIONS

This section presents the preliminary year-end revenue by revenue category. Information is subject to year-end independent audit.

At the end of the fourth quarter of the fiscal year 2012-2013 budget period, $548.6 million of revenue has been recorded, or 100.1% of the revised budget of $547.8 million. Revenues increased from the revised level of $547,636,766 to $548,619,458 or 1.8%. A more detailed analysis of each revenue category is presented below:

General Fund - City Wide

Taxes:
Revenues from prior year tax levies and interest collections exceeded budget estimates by $5 million. In total, the overall tax revenue category, which includes current year tax levy collections, lien fees, and the sale of tax liens, exceeded the budget estimate by $536,000. Total actual lien sales of $3.2 million have been recorded for fiscal year 2011-2012 for this line item that was budgeted at $7.9 million. Due to the favorable results from prior year tax levies and interest collections we were successful in our management strategy to reduce real estate tax lien sales by approximately $5.8 million from the prior year amount. Every effort is being made to reduce dependency on the sale of tax liens with the goal of entirely eliminating such sales in the future.

Licenses and Permits:
This budget category ended the fiscal year with revenues exceeding the revised budget by $235,000. The increase was led by the building permit revenue account outperforming the budget estimate. We remain confident that the upward trend in permit income will continue during FY 2012-2013.

Fines, Forfeits and Penalties:
Actual revenues in this category are $24,000 under budget due to decrease in false alarms call volume.

Revenue from the Use of Money and Property:
As previously reported the anticipated revenue from the Pension Commission for their portion of operating expenses at Constitution Place was not realized. This budget category ended the year $205,000 under the budget estimate.

Intergovernmental Revenues:
Despite reduced revenues of $1.5 million from the Mashantucket Pequot and Mohegan Fund Grant, this revenue category ended the fiscal year at 100% of the revised budget of $252.3 million. This year, for the first time, as part of the State Budget, a small portion of the state's sales tax, luxury tax and conveyance tax was appropriated to municipalities.

Charges for Services:
Led by the conveyance tax revenue account outperformance of $251,000, an overall positive variance was realized in this category. Total actual revenues of $3,903,212 have been recorded in this general category that was budgeted at $2,787,135.

Reimbursements:
These revenues, received for indirect costs and fringe benefits ended the fiscal year at approximately 97% of the revised budget of $3.4 million.

Other Revenues:
Unanticipated revenue of $1 million was realized from the sale of City property and resulted in a positive variance of approximately $1.8 million in this budget category.
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Other Financing Sources:
Actual revenues in this category are $1.3 million under the revised budget of $4.4 million. The decision was made not to transfer funds set aside in a renewal and replacement reserve account at the Hartford Parking Authority during the past two fiscal years and to defer said revenue until next fiscal year.

General Comments:
in summary, for the third straight fiscal year, actual revenues exceeded budget estimates. The favorable budget variance of $798,000 will result in a slight increase in the City's fund balance which will translate into better bond ratings and lower interest costs to the City. As mentioned earlier, during the year every effort was made to reduce dependency on the sale of tax liens; the sale of real estate tax liens impacts future budgeted revenue from prior year tax loss collections and interest and has an effect on economic development.

As we begin the 2012-2013 fiscal year the Finance Department will continue to monitor revenues closely and aggressively pursue opportunities to improve all collections and identify new revenue sources for the future.
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EXPENDITURE PROJECTIONS

This section presents the preliminary year-end expenditures. Information is subject to year-end independent audit.

Mutual Aid:
Actual expenses for Fiscal Year 2011-12 were $645,554,612, $2,392,144 under the revised budget level of $647,946,766, a 0.4% of the revised budget was expended.

For Fiscal Year 2011-12 the City was able to keep expenditures below the adopted budget because of expenditure controls. Although the City as a whole had a expense variance to budget, four departments exceeded their budget and will require a 4th quarter transfer.

As stated in the previous financial reports, controlling the growth of the key expenditure drivers without diminishing critical levels of service was an organization-wide day-to-day challenge that required the full support and commitment of the Administration, Court of Common Council, City Treasurer and the various Bargaining Units.

The expenditure management plan implemented throughout the year encompassed the following:

- The successful repurchase of prior year tax liens totaling $2.1 million. During my time as Mayor, I have been consistent in my position that a guiding principle must be selling fewer liens and that a reliance on this effort only causes an excessive amount of frustration and pain for our residential taxpayers. When the opportunity presents itself, I will continue to repurchase tax liens and allow our Tax office to continue implementing tax payment plans and other innovative tools that demonstrate an understanding of the overall economic conditions and allow for greater taxpayer flexibility.

- Having the Board of Education pay for City "In-Kind" expenses. As a result of a favorable budget variance of their own, the ROC was able to contribute $5.0 million for In-kind expenditure. These In-kind expenditures included: School Crossing Guards, Legal, Purchasing and Financial Services, as well as other Goods and Services provided by the City to the Hartford Public Schools.

- Accomplishing our Attrition Budget Targets. These expense reduction targets totaled approximately $6.0 million. During FY 2011-12 the majority of City departments were able to maintain staffing levels below their appropriated budget levels. Keeping open positions open for a longer duration than normal and only filling critical open positions resulted in savings to payroll and correspondingly to our attrition targets.

- Savings in Fire Over-Time expenses. As a result of prudent management by the Fire Department and in-depth analysis regarding staffing levels, we were able to save almost $1.0 million in Fire OT versus the FY 2011-12 revised budget. Working together the Fire Department and Management & Budget were able to re-align staffing levels, through promotions, which resulted in a significant reduction in OT hours and expenses while improving morale and providing upward mobility for several firefighters.

- Continued savings in Tipping Fees as a result of strong re-cycling initiatives. For fiscal year 2011-12 expenditures for Tipping Fees were below budget by approximately $100,000. This variance would have been even better if it were not for the October, 2011 snow storm which unfavorably impacted tipping fees for the period between November, 2011 and February, 2012.

- Other areas which resulted in expense savings as compared to the FY 2011-12 revised budget included Workers Compensation and Prescription Drug expense. These savings were primarily the result of prudent management and a new cost effective CVS prescription drug contract.

Not all expenses were favorable to budget during Fiscal Year 2011-12:
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- We experienced increases in expenses in both the Register's Office—due to higher than budget staffing levels for elections, and higher than budget expenses in the Police Department as a result of overtime expenses.

- Utilities and Legal Settlements were also above budget. Utilities expenses were up significantly as the result of paying past due invoices, going back for as many as ten years, for both electricity and water.

**Board of Education:**

- The direct appropriation to the Hartford System of Public Schools (HSPS) remained in line with the revised budget. Additionally, and for the first time—as mentioned above, HSPS was able to pay the City $5.0 million for in-kind services.

**Hartford Public Library:**

- The direct appropriation to the Hartford Public Library, which includes fringe benefits, remained on-line with the revised budget.

**Future Outlook for Fiscal Year 12-13:**

My administration is committed to managing Hartford’s government effectively, focusing attention on economic and social indicators that most significantly affect the City’s financial condition. As we begin the 2012-2013 fiscal year we are keenly aware and understand there are still severe financial challenges for the ensuing fiscal year that we must aggressively address and overcome.

These challenges include:

- Continued need to fund increased pension and OPEB liabilities in order to maintain adequate funding levels and maintain and improve our bond rating.
- Funding of the City Pension (MERS) account at levels that are unprecedented and which are expected to continue to increase.
- Police overtime expense.
- Uncertainty in the housing market.
- High unemployment levels.
- The impact of a state mandated re-assessment of the City’s properties and the impact on property taxes.
- The ever increasing level of uncertainty due to the current economic outlook at the federal and state level, potentially impacting intergovernmental revenues.

Nevertheless, there are many positive opportunities expected during the upcoming fiscal year. These include:

- Lower Benefits & Insurance expense due to more attention on preventive care.
- Continued increase in fund balance which will translate into better bond ratings and lower interest cost to the City.
- The utilization of a new Grants office to actively seek out new grant opportunities which is already showing positive results.
- Better management of overtime expenditures across all public safety departments through analysis of and improvements in compensation time, loss time, private duty and other drivers of overtime expense.