September 23, 2013

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

RE: FY 2012-13 Financial Transaction 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 fiscal year beginning July 1, 2012 and ending June 30, 2013.

I am pleased to report that, based upon expenditures and revenues posted to date, the City estimates that revenues will have exceeded expenditures during the 2012-13 fiscal year by $11,403,848. This exact year-end variance from budget remains subject to review by the external auditors. It is also subject to changes that may result from final transactions that have been estimated but not yet posted to the General Fund. Information on the possible impacts of these final transactions is provided on the last page of this letter.

Although the City overall had a positive year-end balance, two departments exceeded their budgets and will require 4th quarter transfers. A resolution has been presented to Council which would authorize these transfers. The FY 12-13 favorable variance also does not include an $11,000,000 ARC payment (Annual Required Contributions) which was made to the Municipal Employee Retirement Fund (MERF) in response to an “off-budget” agreement between the City and the Pension Fund. After adjusting for this payment, the City is estimating a favorable variance to the adopted budget of $803,848. The chart on the next page summarizes both revenues and expenditures for fiscal year 2012-13.

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The Treasurer's refinancing of over $100 million in debt during FY 2012-13 yielded $6,511,198 in bond premium revenues. This represents an increase of $5,956,198 over the adopted budget.

The Hartford Public Schools reimbursed the City a total of $5,800,000 for "in-kind" services, i.e. goods and services, such as school crossing guards, legal services and minor school construction projects, for which the City pays but which are used by the Hartford Public Schools. This reimbursement was not budgeted.

As mentioned earlier, the revenue and expenditures figures are preliminary and reflect the current general ledger balances. It is likely that two additional transactions will be posted before December 2013, when the final audited numbers are released and the Comprehensive Financial Report (CFAFR) is completed. On the revenue side, we anticipate that prior year tax levies will be $1,322,019 less than anticipated due to the property tax 60-day collection rule. On the expenditure side we are conservatively anticipating booking an additional school construction reimbursement amount of $960,677 associated with the Rawson and Breakthrough Magnet Schools. These two entries create a $352,342 negative balance, which will reduce the favorable year end budget balance from $803,848 to $451,506 which will be added to the fund balance.

Attached to this letter are further details on revenues (Attachment A) and expenditures (Attachment B). Also available for your review are various budget documents and reports which may be found at the following web addresses:

http://www.hartford.gov/finance and

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

Overall, financially, FY 2012-13 was a good year. We have been able to end the fiscal year by adding a small amount to the fund balance, even after fully paying off the $11 million pension liability. I look forward to continuing to work in concert with the Court of Common Council to balancing the budget, while achieving our common goals of rebuilding our neighborhoods, creating jobs, and encouraging innovation and entrepreneurship.

Respectfully submitted,

Pedro E. Segarra
Mayor
Item #4 cont.

The estimated positive balance of revenues over expenditures of $803,848 will be added to the fund balance or fund reserve, thus raising the balance by 3.1%, from $25.5 million to $26.6 million. The fund balance represents 5.8% of FY 2012-2013 expenditures (compared to 4.7% in FY 2011-12).

Below is a graph showing the change in fund balance for the past eight years.

<table>
<thead>
<tr>
<th>Year End</th>
<th>$ Millions</th>
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<tbody>
<tr>
<td>FY 05-06</td>
<td>(4.0)</td>
</tr>
<tr>
<td>FY 06-07</td>
<td>(2.0)</td>
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<tr>
<td>FY 07-08</td>
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<td>FY 10-11</td>
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<td>FY 11-12</td>
<td>(4.0)</td>
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<tr>
<td>FY 12-13</td>
<td>(4.0)</td>
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*Subject to external auditor review. Figures are rounded.

In addition to the $11 million “off-budget” MIRP payment there were other extraordinary items affecting our year-end financial position. These include (1) school construction reimbursements, (2) bond refinancing, and (3) payments from the Hartford Public Schools for services provided by the City.

To date, $3,161,436 in School Construction Reimbursements from the Bureau of School Facilities at the Connecticut Department of Education, has been booked so far, and an additional $969,677 is expected to be collected by November 1, 2013. The year-end actual numbers above reflect the $3,161,436 but do not reflect the $969,677. School Construction Reimbursements were budgeted as Revenues. Per an agreement between the City’s outside auditors and our bond counsel, the reimbursements are now being accounted for as a “contra-expense”. That is, such reimbursements are accounted for as a credit to Debt Service instead of as Intergovernmental Revenues.
ATTACHMENT A: REVENUES

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, $535.7 million of revenue has been recorded, which represents 99.2% of the budgeted amount of $540.3 million. An analysis of each revenue category is presented below.

General Fund - City wide

Taxes: Revenues from tax collections (excluding lien-sales) exceeded budget estimates by $6.5 million. In total, the overall tax revenue category exceeded the budget estimate by $3.2 million. Due to the favorable results from tax collections we were successful in our management strategy to reduce real estate tax lien sales by approximately $3.2 million from the budgeted amount of $7 million. Every effort continues to be made to reduce the dependency on the sale of tax liens with the goal of entirely eliminating such sales in the future.

Licenses and Permits: Due to various construction projects being delayed, this budget category ended the fiscal year $460,000 below the budgeted amount of $5.9 million. We remain confident that these construction projects will break ground in FY 2013-2014.

Fines, Forfeits and Penalties: Actual revenues in this category are $10,000 under budget due to a decrease in false alarm call volume.

Revenue from the Use of Money and Property: Led by an increase in the CRRA Bulky Waste revenue account of $282,000, this budget category ended the fiscal year with revenues exceeding the adopted budget by $39,000.

Intergovernmental Revenues: This revenue category ended the fiscal year at approximately 94% of the adopted budget. Various changes at the State of Connecticut in formula grant allocations changed individual grant amounts which had an effect on this category. Payments from tax-exempt institutions which were budgeted for $1M were not realized. A reduction of $3.1 million in debt service payments was recognized on the expenditure side for the $12.2 million in revenue which was budgeted for school construction reimbursements.

Charges for Services: The budgeted amount for this category was $2,954,647. Total actual revenues of $2,780,580 have been recorded, the decrease being caused primarily by a $277,000 shortfall in the repair and demolition liens account.

Reimbursements: Despite a shortfall of $1 million in Medicaid reimbursements, this budget category ended the fiscal year at 89% of the adopted budget. Total actual revenues received for indirect costs and fringe benefit reimbursements exceeded the adopted budget of $3,643,597 by $417,296.
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Other Revenues: Proceeds of the sale of 525 Main Street to the Metropolitan District Commission (MDC) were budgeted in this category in FY 2012-13. Since the sale did not take place, there is a negative balance in this category of $1.3 million.

Other Financing Sources: Unanticipated revenue of $5 million dollars in additional bond premium coupled with additional transfers from the Hartford Parking Authority and better collections for Police private duty charges resulted in revenues exceeding budget estimates in this category by $8.4 million.

General Comments: Despite reduced revenues from school construction reimbursements, voluntary payments from tax-exempt institutions and reimbursements from Medicaid reimbursements, we expect a slight increase in the City’s fund balance. Due to better than anticipated tax collections we were able to sell fewer real estate tax liens than were budgeted. It is important to note that the sale of real estate tax liens impacts future budgeted revenue from collections of prior year tax levies and interest and has a dampening effect on economic development in the city.

During the 2013-2014 fiscal year, the Finance Department will continue to monitor revenues closely, will aggressively pursue opportunities to improve all collections, and will identify new revenue sources for the future.
ATTACHMENT B: EXPENDITURES

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

Municipal:

Actual expenses for Fiscal Year 2012-13, as currently being reported in the general ledger, were $34,935,770, $5,335,211 less than the adopted budget level of $40,270,981. In other words, 99.0% of the adopted budget was expended. It may be noted that the variance between actual and budgeted expenditures would have been $17,304,888 were it not for the $11 million MRBSP commitment and the school construction reimbursement to debt service.

For Fiscal Year 2012-13, the City was able to keep expenditures below the adopted budget through stringent expenditure controls. Although the City as a whole had a positive variance of actual expenditures to budgeted expenditures, two departments exceeded their budget and will require budget transfers. A resolution to implement those transfers is presently before Council.

As always, 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 Councill, City Treasurers, City Departments, and the various Bargaining Units.

A more detailed analysis of each expenditure category is presented below:

- Debt payments for planned servicing of debt were on budget for FY 12-13. Debt service is anticipated to be favorable to budget by $4.1M, as a result of accounting procedures, required by external auditors and bond counsel, to credit debt service expenditures for school construction reimbursements. Currently, $3.1M has been realized and, conservatively, $906,677 is projected to be received prior to November first.

- As in the previous fiscal year, the Hartford Public Schools was able to reimburse the City for $5.8 million in services paid for by the City. Among the services provided by the City were School Crossing Guards, and legal, purchasing and financial services.

- The Citywide attrition payroll budget of $3.9M was exceeded in FY 12-13. The majority of City departments were able to maintain staffing levels below their appropriated budget levels through their internal management and through centralized position control, review, and management. Continuing to keep vacant positions unfilled for a longer duration and only filling positions deemed critical, resulted in decreasing payroll costs while maintaining service levels.

- Expenditures for solid waste disposal were under budget by more than $500,000. Both a reduced price per ton for tipping fees and a reduced volume of trash contributed to the favorable variance.
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Not all expenses were favorable to budget during Fiscal Year 2012-13 as shown below.

- The Registrars of Voters exceeded their adopted budget by $206,907. A Council approved budget transfer of $80,000 earlier in the fiscal year partially offset this variance leaving a current unfavorable variance of $126,907.

- Overtime related expenditures were mixed. The Fire Department exceeded budgeted overtime by approximately $700,000 primarily due to not being able to fill 13 Ladder driver/pump operator. Firefighter positions, funded by the General Fund and the SAFER Grant, came online in the final months of FY 12-13 to mitigate the overages. Moving forward, these resources will be on the line and in service for all of the ensuing fiscal year. Police Department operational overtime finished the year in a favorable position, being approximately $100,000 under budget, which is a significant favorable change from the unfavorable variance experienced in previous fiscal years.

Board of Education:

- The direct appropriation to the Hartford System of Public Schools (HSPS) remained on-line with the adopted budget. Additionally, as mentioned above, the HSPS was able to pay, to the City, $5.8 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 adopted budget.