October 27, 2014

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


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, 2013 and ending June 30, 2014.

This report is based on the City's actual unaudited financial performance as compared to the fiscal year 2013-14 adopted Budget. It is important to highlight that these numbers are unaudited as we are preparing for our annual external audit, which will result in our Comprehensive Annual Financial Report (CAFR). The CAFR is prepared by the Finance Department in accordance with Generally Accepted Accounting Principles (GAAP) as they relate to governmental agencies in addition to financial standards promulgated by the Governmental Accounting Standards Board (GASB). The adopted general fund budget should be used in conjunction with the CAFR to compare the City's total financial position versus the plan (i.e., the Budget). The Budget is the City's policy document for the fiscal year and the CAFR reflects the City's actual financial performance for the fiscal year.

When comparing the City's financial performance to the Budget, please keep in mind that the Budget included a planned drawdown of $8.35 million from the unassigned fund balance. In addition, the City entered into a $13.1 million Memorandum of Understanding with the Pension Commission (Pension MOU) to fund the balance of the City's annual pension contribution not included in the adopted Budget. When combined, the planned uses of fund balance and the Pension MOU total $21.4 million. There were two budget related Ordinances approved by Council that impacted the fiscal year 2014 Budget, on January 16, 2014 and August 11, 2014, resulting in an increase of $12.65 million to a Revised Budget of $551.4 million. The unaudited presentation of fiscal year 2014's financial performance represents the planned use of $8.35 million from the unassigned fund balance and the potential $13.1 million Pension MOU reduced to $4.25 million by virtue of reductions in operating expenditures and the realization of revenues beyond those budgeted.

The City has closed fiscal year 2013-14 and is in the process of completing the financial reports in anticipation of the annual external audit scheduled to begin this week. We anticipate issuing the CAFR by December 31, 2014.

Respectfully submitted,

Pedro E. Segarra
Mayor

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FISCAL YEAR 2013-14 FINANCIAL TRANSACTIONS REPORT

REVENUE PROJECTIONS

This section presents the preliminary year-end review of revenue. The information provided below is subject to change due to the year-end external audit to be performed by McGladrey and Pullen.

The quarterly revenue report as of June 30, 2014 shows actual revenues of $534.6 million or 100.8% of the adopted Budget. Actual revenues exceed the adopted Budget of $530.4 million by $4.2 million.

Although several revenue categories came in below budget, the intergovernmental revenue category exceeded the adopted Budget by 2.4% which led the way to a favorable variance of $4.2 million. However, this favorable variance is subject to change after completion of the year-end external audit. As part of the external audit, an adjustment is made to the prior year tax levies regarding tax collections received 60 days following year end. It is estimated that this adjustment could potentially represent a $922,000 decrease to prior year levy collections, which would reduce the overall revenue favorable variance to $3.3 million.

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

General Fund - Citywide

Taxes:
Revenues from current year tax levies and interest collections exceeded budget by $1.5 million. In total, the overall tax revenue category exceeded the adopted Budget by $1.3 million before audit adjustments. The $6.8 million in revenue budgeted from the sale of real estate liens was realized. Every effort continues to be made to reduce the dependency on the sale of tax liens with the goal of entirely eliminating this line item for lien sales revenue in the future.

Licenses and Permits:
This budget category ended the fiscal year with revenues exceeding the adopted Budget by $476,000. The increase was led by the permit revenue accounts outperforming the adopted Budget. We remain confident that the upward trend in permit income will continue during FY2015.

Fines, Forfeits and Penalties:
Actual revenues in this category are $67,000 under the adopted Budget of $221,000.

Revenue from the Use of Money and Property:
Revenue from the use of money and property had an overall decrease of $842,000 versus the adopted Budget. The City received $2 million of the $3 million budgeted from the Capital Region Development Authority (CRDA) for the XL Center lease. However, investment income outperformed the adopted Budget by $133,000.

Intergovernmental Revenues:
Due to the unsettled State Budget at the time the City adopted its FY2014 revenue budget the Governor's budget estimates available at that time were utilized. This conservative approach resulted in the City's budget amount being lower than the final adopted State Budget. This resulted in this revenue category ending the fiscal year at approximately $3.8 million above the adopted Budget.

The State payment in lieu of taxes (PILOT) revenue continues to be funded at amounts below the State statutory level significantly impairing the City's overall potential revenue structure. A fully-funded PILOT payment would enable the City to ease the tax burden on taxpayers and fund the services necessary to ensure adequate education, public safety and the maintenance and improvement to City infrastructure.
Charges for Services:
An overall positive variance of $35,000 was realized in this category. Total actual revenues of $2.78 million have been received in this general category versus the budget of $2.74 million.

Reimbursements:
The reimbursements category ended the fiscal year at 80.2% of the adopted Budget. The shortfall of $808,000 is due to reimbursements for Medicaid services underperforming budgeted projections by $733,000.

Other Revenues:
The shortfall in the other revenues category resulted from not selling property at 525 Main Street to the Metropolitan District Commission (MDC). This will result in a negative variance of approximately $3.5 million in this budget category. The $800,000 of proceeds from the sale of the Morgan Street Garage to the State budgeted in this category was received. However, the funds are included in the “Operating Transfer In” line under the Other Financing Sources category.

Other Financing Sources:
The City’s decision to not go out to market in April of 2014 resulted in no bond premium being received during fiscal year 2014. This decision, coupled with reduced net revenues of $213,000 from the Hartford Parking Authority, resulted in Other Financing Sources exceeding the adopted Budget by $1.8 million. This increase is primarily attributable to Police private duty revenues exceeding budget estimates.

General Comments:
Despite reduced revenues from some of the above mentioned categories in conjunction with the categories that outperformed the budget, revenues resulted in an overall positive position for the fiscal year. In a difficult budget year, the Administration aggressively managed the revenue budget. As we progress through fiscal year 2015, the Administration will continue to monitor revenues closely and pursue all opportunities to improve revenue collections.

EXPENSE PROJECTIONS

This section presents the preliminary year-end review of expenditures. The information provided below is subject to change due to the year-end external audit to be performed by McGladrey and Pullen.

Municipal

Expenses for fiscal year 2014, are presently projected at $547.3 million, this represents an unfavorable variance of $8.5 million to the adopted Budget of $538.8 million, and a favorable variance of $4.1 to the Revised Budget of $551.4 million.

General Fund - Citywide

Reimbursements:
The Board of Education (BOE) is anticipated to reimburse the City’s General Fund $1.7 million net, for services rendered. Additionally, the BOE reimbursement will include $400,000 to the Library and $172,000 to MEHS. Among the services provided by the City to the BOE were School Crossing Guards, legal, purchasing and financial services.
Attrition:
The Citywide total attrition payroll budget of $3.5 million was exceeded in fiscal year 2014. The City’s strategy to meet service needs while controlling costs continues with centralized position control, review, and management. This strategy includes vacant positions remaining unfilled for longer durations and only filling positions that are critical to operations.

Debt:
Debt Service payments were less than the adopted Budget. Regular Debt Service expense (principal and interest) was consistent with the adopted Budget. However, due to changes in accounting practice, where School Construction Reimbursement was accounted for as a reduction to expenses rather than an addition to revenues (as budgeted), total Debt Service expense for fiscal year 2014 is projected to come in under budget.

Overtime:
Overtime exceeded the adopted Budget for some departments. The Department of Public Works exceeded budgeted overtime by approximately $489,000; the Police Department by $716,000; and the Fire Department by approximately $610,000. Winter snow storms were the primary driver of Public Work’s overtime while Police and Fire overtime were driven by a combination of Special Events, employee separations and “lost time.”

Benefits:
The City’s fiscal year 2014 Benefit Expense is projected to be $86.6 million. This represents an unfavorable variance to the adopted Budget of $13.8 million. The main drivers of this variance include the Pension MOU of $13.1 million, $3.0 million in employee concessions, and approximately $950,000 in vacation and sick payout.

During fiscal year 2014 the full amount of the Actuarially Required Contribution payment was made by the City to the Pension Fund. This totaled $36.8 million. The adopted Budget did not contain the expenditure associated with the Pension MOU. The City’s fiscal year 2014 spending plan called for $3.0 million in employee concessions. While unions were approached on this topic and negotiations were held, ultimately the City’s unionized employees did not agree to any concessions. Due to a higher than anticipated number of retirements the City experienced an unfavorable variance to vacation and sick payout as employees were compensated for these benefits upon retirement.

The City did experience favorable variances in two Benefits category – health and liability insurance. The City’s health insurance expense was lower than budgeted by approximately $2.2 million as a result of lower than anticipated health claims. In addition, the City achieved approximately $800,000 of savings (cost avoidance) in liability insurance as a result of a Request For Proposals.

Board of Education:
The direct appropriation to the Board of Education remained as budgeted.

Hartford Public Library:
The direct appropriation to the Hartford Public Library, which included fringe benefits, remained as budgeted.

FUND BALANCE PROJECTIONS

This section presents the preliminary year-end change to fund balance. The information provided below is subject to change due to the year-end external audit to be performed by McGladrey and Pullen.

Based on unaudited fiscal year 2014 revenues and expenditures, the City estimates that the drawdown of the unassigned fund balance for fiscal year 2014 will be $12.6 million. The following chart summarizes both revenues and expenditures for the fiscal year.
The estimated (unaudited) difference between revenues and expenses of $12.6 million will be deducted from the ending fund balance for fiscal year 2013, thus reducing the unassigned fund balance from $27.5 to $14.9 million. The unassigned year-end fund balance represents 2.7% of fiscal year 2014 expenses compared to 5.1% in fiscal year 2013. The graph below reflects the fiscal year ending total fund balance for the past 10 years.

It is important to note that there are five GASB classifications to municipal fund balances: non-spendable, restricted, committed, assigned, and unassigned. Each fund balance classification has certain characteristics that categorize the type of fund balance based on constraints imposed upon the use of the resources reported in the funds. For purposes of this report, we have focused on the unassigned fund balance and total (all classifications). Unassigned fund balance is the residual classification and includes all spendable amounts that have not been contained in the other categories. The unassigned fund balance was most closely referred to as undesignated, or as the "rainy day fund."

The City is evaluating the viability of various methods to increase the unassigned fund balances over the next several budget cycles to a target goal of 7.5%.