September 21, 2015

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, 2014 and ending June 30, 2015.

This report is based on the City’s actual unaudited financial performance as compared to the FY2015 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, and in accordance with 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 Council amended the FY2015 Adopted Budget when it approved the use of $398,000 of previously Restricted Fund Balance for the Pratt Street Improvement Project, which increased the FY2015 Adopted Budget from $552 million to the Revised Budget of $552.4 million. In addition, due to accounting treatment of certain benefits reimbursements and bond premium, the Report reflects revenues of $547.7 million (99.2% of the Revised Budget) and expenses of $540.2 million (97.8% of the Revised Budget). The City’s financial performance for FY2015 is projected to result in a positive variance of $7.5 million. I have instructed staff to account for $1,000,000 of this positive variance in the Assigned Fund Balance to be used for the expansion of the Summer Youth Program ($500,000), and expansion of the “ShotSpotter” infrastructure ($500,000). This results in a projected increase of $6.5 million to the Unassigned Fund Balance (formerly Undesignated or “rainy day”), which will raise the FY2014 total of $13.0 million to $19.5 million.

The City has closed FY2015 and is in the process of completing the financial reports in anticipation of the annual external audit scheduled to begin in the coming weeks. We anticipate issuing the CAFR by December 31, 2015.

Respectfully submitted,

Pedro E. Segarra
Mayor

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FINANCIAL TRANSACTIONS REPORT
FISCAL YEAR 2014-15

REVENUE PROJECTIONS

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

The fourth quarter revenue report as of June 30, 2015 reflects actual revenues of $547.7 million or 99.2% of the Adopted Budget of $552 million. Actual revenues are $4.4 million lower than the Adopted Budget. However, the cause of this shortfall is due to accounting changes.

During FY2015, $14.7 million in revenues from the reimbursements and bond premium categories were recognized as reductions on the expenditure side of the budget rather than revenues as in the Adopted Budget. Specifically, $1.8 million in the reimbursements category was recorded as an expenditure reduction to benefits. Bond premium of $3.1 million budgeted as revenue in the other financing sources category came in significantly higher at $12.9 million but was recorded as a reduction to debt service expense. If these accounting reclassifications did not occur, actual revenues would have exceeded the Adopted Budget by $10.4 million prior to the fiscal year end external audit.

As part of the external audit, an adjustment is made to the prior year tax levies regarding collections received 60 days following the end of the fiscal year. It is estimated that this annual adjustment could potentially represent a $148,000 decrease to prior year tax levy collections, which would ultimately increase the overall revenue unfavorable variance to $4.5 million.

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

**General Fund - Citywide**

*Taxes*
Revenues from FY2015 tax levies and interest collections exceeded budget by $3.8 million. In total, the overall tax revenue category including current and prior fiscal year tax levies as well as sale of tax liens, exceeded the Adopted Budget by $1.7 million before audit adjustments. We were successful in our management strategy to reduce the sale of tax liens by approximately $1.7 million from the prior fiscal year’s tax liens sale. My administration has reduced reliance on lien sales because these sales not only impact our residents but future revenue arising from the collection of interest and prior year levies. Management will continue to pursue a strategy of reducing the sale of tax liens in future fiscal years.

*Licenses and Permits*
This budget category ended FY2015 with revenues exceeding the Adopted Budget by $1.6 million. The increase was led by the building permit revenue account outperforming the Adopted Budget by $1.1 million. We remain confident that recent projects both large and small will continue the upward trend in permit income during FY2016.

*Flines, Forfeits and Penalties*
Actual revenues in this category are $28,000 below the Adopted Budget of $209,000.
Revenue from the Use of Money and Property
As reported in previous monthly financial reports, the anticipated revenue of $3 million budgeted from the Capital Region Development Authority (CRDA) for the XL Center lease was not received. This revenue category ended the fiscal year $2.9 million under the Adopted Budget.

Intergovernmental Revenues
Despite the heightened concern during the fiscal year about the State of Connecticut’s budgetary challenges, this revenue category ended the fiscal year at approximately 100.3% of the Adopted Budget of $249.2 million.

The State payment in lieu of taxes (PILOT) revenue continues to be funded at amounts below the statutory level significantly impairing the City’s overall potential revenue structure. For FY2015, the City requested $88.4 million from the State for PILOTs for Colleges, Hospitals and State-Owned Property in accordance with the statutory reimbursement percentages. However, the City actually received $50.6 million from the State due to their available budget to fund the program. A fully-funded PILOT payment would enable the City to ease the tax burden while continuing to fund education, public safety and the maintenance and improvement of City infrastructure.

Charges for Services
An overall positive variance of $793,000 was realized in this category. The conveyance tax revenue account outperformed the Adopted Budget by $789,000. Total actual revenues of $3.6 million have been received in this general category versus the Adopted Budget of $2.8 million.

Reimbursements
The reimbursements category ended FY2015 at 24.2% of the Adopted Budget. Fringe benefits and indirect costs totaling $2,635,054 were recorded as an expenditure reduction to health insurance and payroll rather than as revenue in the reimbursements category.

Other Revenues
The City only realized $990,000 of the $3.1 million budgeted from the sale of City properties. The sale of City-owned property located at 525 Main Street did not take place, which resulted in a negative variance of approximately $2.3 million in this category.

Other Financing Sources
Actual revenues in this category are $1.4 million under the Adopted Budget. However, the $3.1 million budgeted from bond premium was recorded as a reduction to debt service expense rather than as an Other Financing Source in the revenue budget. If the $12.9 million realized in bond premium had been recorded as revenue, this category would have exceeded the budget by $11.5 million.

General Comments
Revenues from taxes, licenses and permits, intergovernmental revenues and charges for services all exceeded the Adopted Budget. Income from fines, forfeitures and penalties and revenue from the use of money and property came in under budget. Despite not receiving the $3 million budgeted from the Capital Region Development Authority (CRDA) for the XL Center lease, total revenues for the fiscal year would have exceeded the budget if the accounting changes for reimbursements and bond premium had been recognized as revenues instead of as expenditure reductions.

EXPENSE PROJECTIONS
This section presents the preliminary fiscal year-end review of expenditures. The following information is subject to change due to the fiscal year-end external audit to be performed by McGladrey & Pullen.
Municipal

Expenses for FY2015, are presently projected at $540.2 million. This represents a favorable variance of $11.8 million to the Adopted Budget of $552.0 million and a favorable variance of $12.2 million to the Revised Budget of $552.4 million.

As mentioned in the Revenue Projection section above, budgeted revenues of $5.7 million for fringe reimbursements and bond premium were recognized as reductions to expenditures in FY2015. Together, actual fringe reimbursements and bond premium for FY2015 totalled $14.7 million. Without these accounting changes, the expense variance for FY2015 would equal an unfavorable $2.9 million instead of the favorable $11.8 million stated above.

At the end of FY2015, the Court of Common Council took action to reallocate funding. A resolution was passed on May 12, 2015 reallocating $398,000 from prior year Restricted Fund Balance to the Capital Improvement Fund for implementation of the Pratt Street Improvement Project. Additionally, a fourth quarter transfer resolution was passed on June 24, 2015 that reallocated $5.9 million from Debt Service to the Fire, Police and Public Works departments. Of the $5.9 million reallocated, $2.3 million was transferred to Fire primarily for overtime, $2.2 million was transferred to Police primarily for overtime, and $1.4 million was transferred to Public Works for overtime and snow related supplies.

General Fund - Citywide

Attrition
The Citywide total attrition payroll budget of $3.3 million was exceeded in FY2015. My Administration successfully continues to apply the strategy to meet service needs while controlling costs with the centralized management and review of hiring positions. This strategy includes managing vacant positions to achieve budgetary savings while continuing to provide critical operations.

Debt
Debt Service payments were $9.6 million in FY2015. This is $10.5 million below the Adopted Budget of $20.1 million. The primary driver of the favorable variance was a reduction in interest costs due to the restructuring of the City's debt and the use of bond premium as discussed above.

Overtime
Overtime exceeded the Adopted Budget for some departments. The Department of Public Works exceeded budgeted overtime by approximately $1.0 million, the Police Department by $2.7 million and the Fire Department by approximately $1.9 million. Snow removal was the primary driver of Public Work's overtime, while Police and Fire overtime was driven by a combination of service needs, employee separations, and Special Events.

Benefits
The City's FY2015 Benefit Expense is projected to be $85.7 million. This represents a favorable variance to the adopted budget of $2.2 million. The main drivers of this favorable variance are contributions to the Municipal Employee's Retirement Fund being less than budget due to attrition, fringe benefit reimbursements being charged as an expenditure credit to health benefits in FY2015, and lower insurance premiums.
Non-Operating
As a whole, the fuel, utility and tipping fee costs were favorable to the Adopted Budget by $1.9 million in FY2015. The City’s payment for the processing of sewer waste, electricity for streetlights and buildings, and tipping fees for the disposal of collected waste were under budget.

Board of Education
The direct appropriation to the Hartford System of Public Schools (HPS) remained in-line with the Adopted Budget.

Hartford Public Library:
The direct appropriation to the Hartford Public Library, which includes fringe benefits, remained in-line with the Adopted Budget.

FUND BALANCE PROJECTIONS
This section presents preliminary fiscal year-end change to total fund balance. The information provided below is subject to change due to the fiscal year-end external audit to be performed by McGladrey & Pullen.

Based on unaudited FY2015 revenues and expenditures, the City estimates that the total (all categories) fund balance for FY2015 will increase by $7.5 million. The following chart summarizes both revenues and expenditures for the fiscal year.

<table>
<thead>
<tr>
<th>TOTAL FUND BALANCE</th>
<th>FY 2015 (Unaudited)</th>
<th>( () Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>552.0</td>
<td>552.0</td>
</tr>
<tr>
<td>Expenses</td>
<td>552.0</td>
<td>552.4</td>
</tr>
<tr>
<td>Change In Fund</td>
<td>--</td>
<td>(0.4)</td>
</tr>
<tr>
<td>Balance</td>
<td></td>
<td>7.5</td>
</tr>
<tr>
<td>Adopted Budget</td>
<td></td>
<td>Revised Budget</td>
</tr>
<tr>
<td>Year End</td>
<td>547.7</td>
<td>(4.3)</td>
</tr>
<tr>
<td>Estimate</td>
<td></td>
<td>Revised $</td>
</tr>
<tr>
<td>Variance</td>
<td>540.2</td>
<td>(12.2)</td>
</tr>
<tr>
<td>Revised % Variance</td>
<td></td>
<td>(2.2)</td>
</tr>
</tbody>
</table>

The estimated (unaudited) difference between revenues and expenses of $7.5 million will be added to the ending fund balance for FY2015, thus increasing the total fund balance from $16.9 million to $24.4 million. For FY2015, the City administration anticipates approximately $1,000,000 of assignments of Fund Balance. Assigned Fund Balance represents amounts earmarked by City management with the intent to use the funds for a specific purpose. Assignments for FY2015 include expanding the Summer Youth Program and expanding ShotSpotter infrastructure. The graph on the next page reflects the fiscal year ending total fund balances since Fiscal Year 2005.
It is important to note that there are five GASB classifications for municipal fund balances:

➤ Non-Spendable,
➤ Restricted,
➤ Committed,
➤ Assigned, and
➤ Unassigned.

A fund balance is categorized according to constraints imposed upon the use of the resources reported in the funds. 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 previously referred to as Undesignated, and is also known as the "rainy day fund."

The City is evaluating the viability of various methods to continue to enhance the Unassigned fund balance over the next several budget cycles to a target goal of 7.5%.