

MUNICIPAL ACCOUNTABILITY REVIEW BOARD (MARB)

MEMORANDUM

TO: Members of the West Haven MARB Committee

FROM: Robert Dakers and Julian Freund, OPM

SUBJECT: Review of City's Revised 5-Year Plan Dated September 21, 2018

DATE: September 26, 2018

As you know, the MARB's approval of the City's 5-Year Financial Plan has been established by the MARB as a critical prerequisite for recommending to the Secretary of OPM that the City receive State Municipal Restructuring Funds (MRF). The review and approval of the plan also relates to issues and questions the MARB had with respect to the current year budget (fiscal year 2018-19).

On September 21, 2018, the City submitted a revised plan, which like the previous submittals on August 29, 2018 and September 13, 2018, sought to address the list of issues raised at the August 22, 2018 meeting of the MARB Committee meeting and the full MARB on September 14, 2018. In addition, the City has submitted schedules indicating the changes made to previous plans and additional documentation related to its health insurance projections.

The City has made progress on a number of the issues raised by the MARB. The MARB will need to determine: 1) what additional modifications may be needed to the City's plan and 2) are there any issues that need to be addressed in the current year (FY19) budget as a result of the review.

Finally, with respect to any distribution of the Municipal Restructuring Funds to the City by OPM following approval of the plan, Public Act 17-2 indicates that "the secretary shall consult with the municipal accountability review board in making distribution decisions and attaching appropriate conditions thereto, including the timing of any such distributions."

STATUS OF FINANCIAL ISSUES RAISED BY THE MARB WEST HAVEN ON AUGUST 22, 2018

The discussion below relates to status of, based on the current City plan of September 21, 2018, the financial plan issues raised by the MARB.

- 1. Health Insurance.** The attached schedule depicts the City's estimated FY 2018 Health Insurance expenditures and projected costs in each of the funds through the 5-year period. The figures shown in the attached schedule reflect the City's net costs after employee premium shares. Costs in FY 2019 have been built upon the budget projections prepared by Segal. The City is projecting FY19 for the General Fund to be 1.84% higher than its projected costs for FY18. Subsequent years assume annual increases of 8.4%, somewhat higher than the 7.3% increase projected by Segal for FY 2020. A self-funded claim margin of 3% has also been included in each year of the plan (calculated as a % of the net cost). The City and MARB should work together to establish a reserve policy regarding health insurance.

Board of Education expenditures are presented as a single line item in the 5-Year Plan and do not break out the cost of health insurance. For illustrative purposes, the attachment includes the Board of Education’s health insurance information from the current year adopted budget.

Staff is working with the City of West Haven on resolving a handful of open questions regarding health insurance costs. These include questions related to:

- IBNR, footnoted on the City’s document as not included;
- Premium share amounts for Allingtown and the WPCA (significant growth between FY18 and 19); and
- Whether the “Fringe Benefit” account in WPCA includes other fringe benefit items besides health insurance.

Additional enrollment information from Segal has also been requested.

2. Administrative Capacity to Identify and Implement Changes. The City’s plan indicates that it has or is bringing in consultants to review the following:

- Its current and potential for fuller use of its financial management system, MUNIS;
- the City’s benefit administration process;
- potential savings regarding its administration of worker’s compensation and heart and hypertension; and
- opportunities to increase its personal property and motor vehicle tax collections.

In addition, the City has added funding (\$125,000) for fiscal year 2019-20 for two fiscal positions. The MARB may, in addition, want to request an overall financial and administrative organizational plan from the Mayor and the City prior to or as part of the submittal of the proposed budget for fiscal year 2019-20 (e.g. plan submitted by January 31, 2019).

3. Police and Allingtown Fire Pensions and Liabilities. The City has included in the plan, relative to the Police Pension Plan, the Actuarially Determined Contribution (ADC) for fiscal year 2018-19 in accordance with a letter from its actuary in February 2018 and the ADC for the out-years calculated previously by the same actuarial firm. With respect to the Allingtown Fire District, there is a discrepancy (see chart below) in the amounts for the ADC in the narrative and the amounts included in the Allingtown Fire Department Plan on page 33. This discrepancy will have to be addressed and changes made, as needed, in the plan.

Allingtown Fire	FY19	FY20	FY21	FY22	FY23
Pension page 9-Town Contributions	\$ 2,174,625	\$ 2,251,000	\$ 2,322,000	\$ 2,395,000	\$ 2,435,000
9-21-18 Plan- p 33 Pension Plan (Retiree's Benefit)	\$ 2,023,852	\$ 2,081,669	\$ 2,145,783	\$ 2,212,493	\$ 2,248,629

It is recommended that the City and the MARB, in consultation with the City's actuaries and other professionals, meet and develop a longer approach to these pension liabilities for inclusion in the City's update of its 5-Year Plan due in the spring of 2019.

- 4. OPEB Liabilities-City and Allingtown.** The most significant OPEB liability relates to retiree health insurance. The City for both its General Fund and for Allingtown Fire Department pays its OPEB liabilities on a pay-as-you-go basis. Ensuring that these pay-as-you go amounts are budgeted correctly relates to the work being done in regard to item number 1., above.

In its 5-year plan, the City has included an annual contribution for advance funding of an OPEB trust, starting with \$50,000 in fiscal year 2019-20 and increasing each year, reaching \$125,000 in fiscal year 2022-23.

Similar to pension liabilities, it is recommended that the City and the MARB, in consultation with the City's actuaries and other professionals, meet and develop a longer approach to these OPEB liabilities for inclusion in the City's update of its 5-Year Plan due in the spring of 2019. This work should include the City's Board of Education since the OPEB liabilities related to their employees are part of the overall amount calculated for the City.

- 5. Fire Districts/Department.** On page 47 of the City's September 21st plan, it indicates that it is in the process of engaging MMA Consulting, who completed a study of the fire districts in 1994, to conduct a new study, or, if not MMA Consulting, identifying and hiring another firm. The plan indicates a study completion date of December 1, 2018.

The December 1st completion date seem ambitious. In order to ensure a comprehensive plan with an appropriate scope and study methodology is undertaken, it is recommended that a report recommending the scope, approach and timeframe for the study (not the study itself) be completed by December 1, 2018 (or sooner) and submitted to the City Council, the MARB and other parties.

- 6. Compensation Assumptions for Employees.** The plan includes one percent in the fourth year and two percent, not the original one percent, in the fifth year for net compensation increases for union and non-union employees. This assumes a pattern of a zero net increase for the first three years of the plan. The concern in this regard is for the plan to contain realistic assumptions as to costs.
- 7. Clarifications re Debt Service Issues re City and WPCA.** Projected Debt Service payments in the General Fund are consistent with the IBIC plan presented on July 9, 2018. The Debt Service schedule provides for payments on existing debt including the November 2017 bond issue, a proposed 2017/18 capital plan, the West Haven High School project, and the FY 2019-2023 CIP (A \$189,640 interest payment is included that had been left off of early versions of the 5-year plan). Projected Debt Service payments in the WPCA Fund reflect the July 9, 2018 IBIC plan with a somewhat reduced scope in the out-years. Projected Debt Service payments in the WPCA include existing debt requirements, addressing the EPA consent decree and proposed sewer pump upgrades. Debt Service projections for FY 2020 – FY 2023 have been reduced by 50% to 70% when compared to the IBIC July 9, 2018 plan.

The 5-Year Plan also reflects a continuation of paying for certain Clean Water Fund debt requirements out of the General Fund. Transfers from the WPCA Fund reimburse the General Fund for these payments. It appears there may be a discrepancy in year 1 of the plan between the Transfer Out from the WPCA Fund and the Transfer In to the General Fund. Staff is seeking a clarification from City staff in this regard.

8. **Administrative/Operational Efficiencies.** The September 21, 2018 plan, on page 26, assumes administrative efficiencies savings equaling 1% of total expenditures (*including BOE expenditures*), at a cost of 25% of such savings, in the amounts of \$516,543 in fiscal year 2019 (approx. ½ year) and about \$1,250,000 each year thereafter.

It is recommended that, given that the fiscal year is approaching 30% completion, that no savings associated with these initiatives should be included in the plan for fiscal year 2018-19. The City should, nonetheless, begin the identification and implementation process now given the time often needed to realize such savings. As for the out-year savings in this regard, the City should provide a list of the initiatives that they are considering and provide, prior to or as part of the proposed fiscal year 2019-20 budget, specific savings estimates, action plans and related timeframes associated for the initiatives planned or underway related to anticipated savings in FY20.

9. **Board of Education (BOE).** The City's plan increases BOE spending by .8% per year in the out years. The City's original plan held the State Education Cost Sharing grant (ECS) flat in each of the five years; however, a .8% annual increase in ECS has been included in the September 21, 2018 plan (see chart below). As an Alliance District, any increase in ECS goes directly to the BOE and should not be budgeted by the City. An option for the City, if it wants to retain the net impact of the September 21 plan change, would be to return the ECS line to the original amounts and reduce the BOE expenditure line by equivalent amounts. There was a previous concern raised regarding the BOE's ability to absorb salary, health insurance and special education tuition increases within such small increases. As was done by the Hartford MARB Committee, the West Haven Committee should meet at some point with the West Haven's Superintendent and staff to get a better understanding of the BOE's budget issues

Education	FY19 Budget	FY20 Plan	FY21 Plan	FY22 Plan	FY23 Plan	Total Incr
Education Expend	\$ 89,960,421	\$ 90,680,104	\$91,405,545	\$ 92,136,790	\$ 92,873,884	\$ 2,913,463
Annual Increase		\$ 719,683	\$ 725,441	\$ 731,245	\$ 737,094	
% Increase		0.80%	0.80%	0.80%	0.80%	
State ECS Rev (orig plan)	\$45,140,487	\$45,140,487	\$45,140,487	\$45,140,487	\$45,140,487	
State ECS Rev (9/21)	\$45,140,487	\$ 45,501,611	\$45,865,624	\$ 46,232,549	\$ 46,602,409	\$ 1,461,922
Annual Increase		\$ 361,124	\$ 364,013	\$ 366,925	\$ 369,860	
% Increase		0.80%	0.80%	0.80%	0.80%	

10. **General Fund Revenues in September 21, 2018 Plan (New).** In its September 21, 2018 plan, the City increased certain revenue items (see chart below) by 3%, year over year; however, in most instances, no description of actions planned nor historical or supporting documentation were

provided in support of such increases. It is recommended that only such increases that can be supported be included in the plan.

<u>Category</u>	<u>FY19 Budget</u>	<u>FY19</u>	<u>FY20</u>	<u>FY21</u>	<u>FY22</u>	<u>FY23</u>
Prior Years Taxes	\$ 400,000	\$ -	\$ 12,000	\$ 24,360	\$ 37,091	\$ 50,204
Interest & Lien Fees	\$ 765,000	\$ -	\$ 22,950	\$ 46,589	\$ 70,936	\$ 96,014
Licenses and Permits	\$ 1,814,450	\$ -	\$ 6,584	\$ 13,365	\$ 29,799	\$ 76,276
Fines, Fofeits and Penalties	\$ 150,000	\$ -	\$ 750	\$ 7,523	\$ 14,498	\$ 21,683
Use of Money/Property	\$ 80,000	\$ -	\$ -	\$ 3,600	\$ 9,108	\$ 14,781
Property Tax Relief Veteran Reim	\$ 118,373	\$ -	\$ 3,551	\$ 7,209	\$ 10,976	\$ 14,857
Town Aid Road	\$ 617,200	\$ -	\$ 18,528	\$ 37,612	\$ 57,268	\$ 77,514
Charges Current Services	\$ 1,109,909	\$ -	\$ 23,076	\$ 46,845	\$ 71,326	\$ 96,543
Other Revenues	\$ 2,132,505	\$ -	\$ 24,731	\$ 53,359	\$ 82,846	\$ 113,218
Residual Equity Trans In	\$ 200,000	\$ -	\$ -	\$ 7,500	\$ 15,225	\$ 23,182
	\$ 7,387,437	\$ -	\$ 112,170	\$ 247,962	\$ 399,073	\$ 584,272

11. FY19 Budget Monitoring and Management (New). Other than the aforementioned changes associated with administrative efficiencies, the only changes made related to the fiscal year 2018-19 City adopted budget were the \$189,640 additional needed for debt service and a net of \$198,114 related to health insurance changes. The City is projecting the \$1,750,000 reserved in the budget for prior deficit reduction as unspent, but this is not a change in the budget. With respect to fiscal year 2018-19, monthly monitoring and projections will have to be provided to determine if the budget is remaining in balance and whether corrective actions and measures need to be identified and implemented.

12. Fund Balance. The projected accumulated General Fund balance at the end of fiscal year 2022-23 in the September 21st plan is \$8,434,095, representing approximately five percent of revenues. The starting point as of July 1, 2018 is projected by the City (see page 12 of the September 21 plan) to be (\$128,165). This will be impacted by the final amount of the fiscal year 2017-18 deficit as offset by the MRF grant from OPM. We have had a question into the City to verify the amount of \$753,415 in line (c), Premium Net of Expenses, on the page 12 chart. In addition, included in this memo are recommended or potential changes to the plan that could have an impact on the City's projected surpluses.

ALLINGTOWN FIRE DEPARTMENT

The issues for the for the proposed 5-year plan for the Allingtown Fire Department include the pension and health insurance issues described above. In regard to the Allingtown Fire District's fund deficit, the projection on page 29 of the September 21, 2018 plan is that the beginning fund deficit on July 1, 2018 will be (\$425,845). The proposed September 21, 2018 plan would seek to eliminate this fund deficit by fiscal year 2021-22 (see page 29 of 9/21/18 plan). A major part of the plan to eliminate the deficit through positive operations is the proposed supplemental tax increase in the current year and higher than previously planned mill rates in the following years, along with projected increases in non-tax income and Back Taxes. The table below compares the revenues in the

August 14th plan reviewed by the committee with the increased revenues in the September 21st plan. Information regarding the supplemental tax can be found on page 31 of the September 21, 2018 plan.

Revenues-Allingtown	FY19: 8/14 Plan	8/14 to 9/21	8/14 to 9/21	8/14 to 9/21	8/14 to 9/21	8/14 to 9/21
Category		FY19	FY20	FY21	FY22	FY23
Non-Tax Income	\$ 381,004	\$ 6,000	\$ 10,080	\$ 15,572	\$ 21,230	\$ 27,056
Back Taxes	\$ 100,000	\$ 20,000	\$ 23,600	\$ 27,308	\$ 31,127	\$ 35,061
Tax Collections	\$ 6,448,846	\$ 434,516	\$ 190,105	\$ 115,986	\$ 72,417	\$ 24,152
Total	\$ 6,929,850	\$ 460,516	\$ 223,785	\$ 158,866	\$ 124,774	\$ 86,269

WPCA

The changes made in the most recent WPCA plan result in a reduction of about \$174,000 in revenues, including an \$186,000 reduction in fiscal year 2019-20 in Sewer Use Fee revenues, along with some increases in other selected revenue items. The offsetting expenditure reductions include those made in the fringe benefit line. As indicated above in the health insurance discussion, there are concerns that the reduction to the fringe benefit line may not reflect that other fringe benefit costs, in addition to health insurance, are charged to this account.

CONCLUSION

As indicated, the City continues to make progress on a number of matters of concern to the MARB. Once again, the MARB needs to make determinations regarding:

- 1) What additional modifications may be needed to the City's plan, including in regard to:
 - Health insurance,
 - Pension (Allingtown),
 - Fire District Study,
 - Debt Service,
 - Administrative/Operational Efficiencies,
 - BOE Expenditures and Revenues and
 - General Fund Revenue changes;
- 2) Are there any issues that need to be addressed going forward in the current fiscal year 2018-19 budget; and
- 3) What recommendations, including amount, conditions and timing, does it wish to recommend to the Secretary in regard to the distribution Municipal Restructuring Funds.

We continue to work with the City on open items described above and are also available to answer any question or provide additional information you may need.

Attachment

Cc: Members of the MARB
 Mayor Nancy Rossi
 Alison Fisher, OPM
 Riju Das, OTT
 Ron Cicarello, Director of finance, City of West Haven
 Linda Savitsky, West Haven

ATTACHMENT
OPM Summary of FY 2018 and FY 2019 Health Insurance Projections

Health Insurance Costs in 5-Year Plan (Net of Employee Contributions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
	Estimated	Projected	Projected	Projected	Projected	Projected
GF Employee Benefits	9,722,366	9,901,082	10,732,773	11,634,326	12,611,609	13,670,984
GF Self-Funded Claim Margin	-	297,032	321,983	349,030	378,348	410,130
Change vs. Prior Year		1.84%	8.40%	8.40%	8.40%	8.40%
Allingtown Fire Dist. Employee Benefits	1,055,322	1,494,656	1,620,207	1,756,305	1,903,834	2,063,756
Allingtown Fire Self-Funded Claim Margin	-	44,840	48,606	52,689	57,115	61,913
Change vs. Prior Year		41.63%	8.40%	8.40%	8.40%	8.40%
WPCA Employee Benefits	454,455	438,130	474,933	514,827	558,073	604,951
WPCA Self-Funded Claim Margin	-	13,144	14,248	15,445	16,742	18,149
Change vs. Prior Year		-3.59%	8.40%	8.40%	8.40%	8.40%
BOE Employee Benefits*	12,645,902	14,105,092	FY 2019 amount from BOE Adopted Budget. BOE health			
BOE Self-Funded Claim Margin	-	-	insurance costs not broken out in 5-year plan.			

Sources:

- FY 2018 Estimated: City of West Haven year-end estimate (see attached Preliminary estimate for year ended 6/30/18)
- FY 2019-2023 Projected: 5-Year Plan, 9/21/18 (except BOE) (see attached 2019 Health Reconciliation)
- FY 2019 Board of Education: Adopted FY 2019 BOE Budget
- * FY 2018 Estimated for BOE is based on figures prepared by City of West Haven. BOE staff is estimating a higher FY 2018 end-of-year amount.

Note: Staff has raised several questions regarding the health insurance projections in the 5-Year Plan and is working to resolve them with the City of West Haven.

1. Employee premium shares for Allingtown Fire District and WPCA increase considerably in FY 2019. Please verify and explain.
2. The WPCA Fringe Benefits account was previously described as inclusive of health insurance and certain other benefit benefits costs. Now that the account has been adjusted to \$438,130, have the other costs been budgeted elsewhere?
3. A footnote on the FY 2018 estimate indicated that IBNR was not included. Have IBNR costs since been estimated, and how will they be recorded?

PRELIMINARY

Subject to Audit

**City of West Haven, Connecticut
For the Year Ended June 30, 2018
Medical Fund**

<u>Source of Funds:</u>	<u>City</u>	<u>BOE</u>	<u>Allingtown</u>	<u>WPC</u>	<u>Total</u>
Employer	9,722,366	12,645,902	1,055,322	454,455	23,878,045
Employees	836,631	2,190,461	49,780	47,551	3,124,423
State of CT		322,965			322,965
Retirees	132,164	825,519	37,073		994,756
Total Source of Funds	10,691,161	15,984,847	1,142,175	502,006	28,320,189
<u>Use of Funds:</u>					
Claims	10,095,884	15,021,711	1,098,089	482,630	26,698,314
Stop-Loss Premiums	413,175	648,655	44,086	19,376	1,125,292
Administration	182,102	314,481			496,583
Total Use of Funds	10,691,161	15,984,847	1,142,175	502,006	28,320,189

*Net Source/(Use) - - - - -

* Excludes IBNR

2019 Health Reconciliation					
	City	Allingtown	Water	Total	
5 year financial plan dated 9/13/2018					
healthcare cost	9,900,000	1,040,000	650,000	11,590,000	
medical run-off	100,000	-	-	100,000	
supp insurance carve out	-	100,000	-	100,000	
healthcare cost shortfall	-	100,694	-	100,694	
Total 5 year plan:	10,000,000	1,240,694	650,000	11,890,694	
employee share:	982,018	153,344	97,170	1,232,532	
Total estimated cost including employee share:	10,982,018	1,394,038	747,170	13,123,226	
Per Segal Consulting (without margin):	10,883,100	1,648,000	535,300	13,066,400	
Difference - Over (under):	98,918	(253,962)	211,870	56,826	
5 year financial plan to be submitted on 9/21/2018					
healthcare cost	9,901,082	1,494,656	438,130	11,833,868	
self-funded claims margin (3%)	297,032	44,840	13,144	355,016	
Total 5 year plan:	10,198,114	1,539,496	451,274	12,188,884	
employee share:	982,018	153,344	97,170	1,232,532	
Total estimated cost including employee share:	11,180,132	1,692,840	548,444	13,421,416	
Per Segal Consulting:	10,883,100	1,648,000	535,300	13,066,400	
- without margin	297,032	44,840	13,144	355,016	
- 3% margin	-	-	-	-	
Difference - Over (under):	0	(0)	0	(0)	