


**MUNICIPAL ACCOUNTABILITY REVIEW BOARD
MEMORANDUM**

TO: Members of the MARB West Haven Committee

FROM: Robert S. Dakers, OPM 

SUBJECT: Overview of City's Revised Five-Year Plan Dated August 29, 2018

DATE: September 4, 2018

Last week, we forwarded to you and the other members of the MARB the City's revised Five-Year Financial Plan. As you know, the Committee is scheduled to meet this Friday, September 7, 2018 to review the plan, contingent upon receipt of health insurance documentation. The purpose of this memo is to discuss the changes made by the City in the August 29, 2018 revised plan and the extent to which the revisions address the comments and recommendations made by the Committee at its August 22, 2018 meeting.

Revisions Made by City in August 29, 2018 Plan in Regard to the General Fund

At the August 22nd Committee meeting, the City's Five-Year Plan dated August 14, 2018 was reviewed and discussed. Following the meeting, the City submitted a plan on August 29th that contained revisions to the August 14th plan. The revisions made with respect to the City's General Fund are reflected in Attachment 1 to this memo. The latest plan contains no changes to the plan's revenue section. The August 29th plan made the following expenditure changes, which are also outlined in Attachment 1:

- 1) **Police Pension Contribution.** The City increased the Police Pension contribution to full Actuarial Determined Contribution (ADC). MARB staff has requested back-up from the City's Actuary in this regard.
- 2) **Contingency-Prior Year Debt Reduction.** In its FY19 adopted budget, the City, as requested by the MARB, included an amount of \$1.750 million in Contingency to reduce or retire the amount of the City's accumulated General Fund Balance deficit from prior years. The revised plan assumes that the \$1.750 million will not be spent, creating a savings in the budget of this amount.
- 3) **Debt Service.** A first year adjustment to debt service is included. MARB staff is seeking to get more information regarding the plan's debt service amounts, since there seems to be some potential discrepancies. We are also seeking confirmation that the plan includes debt service related to the City's adopted FY19-23 CIP as previously discussed.
- 4) **Administrative Efficiency Savings.** As described on page 5 of the plan, the plan now assumes savings equal to .75% of the total budget from efficiency initiatives in FY19 and 1% of budget total in FY's 20 to 23.
- 5) **Administrative Cost of Efficiency Initiatives.** The City assumes that the cost of the efficiency initiatives is 25% of the projected savings.

On page 12 of the August 29th plan, the City projects a beginning deficit, as of June 30, 2018, of (\$128,165), assuming \$8,000,000 in State Municipal Restructuring Funds (referred to as "MARB Revenue" in plan) is received by the City for FY18. MARB staff has asked what is meant by "Premium of Net Expenses" included in the amount of \$753,415 on page 12. The bottom line of Attachment 1's General Fund section reflects the accumulated general fund balances as of June 30th in each fiscal year of the plan.

Allingtown Fire Department

The changes made in the August 29th plan (compared to the August 14th plan) for the Allingtown Fire Department are on the bottom portion of Attachment 1. The August 29th plan's increase in expenses relates to a "Healthcare Cost Shortfall" and increasing the pension contributions to meet the ADC for the Allingtown Fire plan (*Backup requested*). The increases in Income are all related to Tax Collections.

For the Allingtown Fire Department, MARB staff has requested a beginning Surplus/Deficit projection for Allingtown as of June 30, 2018 like the one done for the General Fund on page 12. As of June 30, 2017, Allingtown's Fund Balance Deficit was \$658,268. With the City's FY18 Projection (as of May 2018) of an operating surplus of \$232,000, the potential starting fund balance deficit would be \$426,000 as of June 30, 2018. Given the surplus/deficit projections reflected in Attachment 1, this could result be a negative fund balance for the five years of the plan.

West Haven Water Pollution Control Authority

The August 29th plan did not make any changes to the August 14th plan. As with the General Fund, Allingtown, and the BOE, documentation is needed regarding actual and projected health insurance costs.

Status of Comments and Requests by MARB West Haven Committee Members at August 22, 2018 Meeting

At the August 22nd Committee review of the draft August 14th plan, Committee members provided comments and made requests as outlined in Attachment 2. In *red italics* in Attachment 2 is a brief update, as of September 4, 2018, regarding how or if the plan addressed each of these comments and requests.

Please contact me with any questions or requests you may have in this regard.

Attachments 1 &2

Cc: Members of the MARB
Mayor Nancy Rossi
Alison Fisher, OPM
Riju Das, OTT
Linda R. Savitsky, Interim Finance Director, City of West Haven

Attachment 1: Changes in City's 8-29-18 Draft 5-Year Plan (Compared to 8-14-18 Draft)						
State Office of Policy and Management						
9/4/2018						
GENERAL FUND						
August 14, 2018 Plan						
	FY19	FY20	FY21	FY22	FY23	
Total Revenue	\$156,303,201	\$159,242,528	\$163,637,535	\$169,031,759	\$168,800,214	
Total Expenditures	\$164,303,201	\$165,237,354	\$167,486,996	\$170,734,069	\$167,720,957	
Surplus/(Deficit w/out MARB funding)	(\$8,000,000)	(\$5,994,826)	(\$3,849,461)	(\$1,702,310)	\$1,079,257	
MARB Revenue	\$8,000,000	\$6,000,000	\$4,000,000	\$2,000,000	\$0	
FINAL SURPLUS (DEFICIT)	\$0	\$5,174	\$150,539	\$297,690	\$1,079,257	
August 29, 2018 Plan						
	FY19	FY20	FY21	FY22	FY23	
Total Revenue (same as 8/14)	\$156,303,201	\$159,242,528	\$163,637,535	\$169,031,759	\$168,800,214	
Total Expenditures-8/14	\$164,303,201	\$165,237,354	\$167,486,996	\$170,734,069	\$167,720,957	
Notes: Add/(Subtract) 8/29 Exp Changes						
1) Police Pension (meet ARC)	\$419,500	\$891,500	\$939,500	\$937,500	\$0	
2) Contingency	(\$1,750,000)					
3) Debt Service Adjustment	\$189,640					
4) Administrative Efficiency Savings	(\$1,232,274)	(\$1,652,374)	(\$1,674,870)	(\$1,707,341)	(\$1,677,210)	
5) Administrative Costs	\$308,069	\$413,093	\$418,717	\$426,835	\$419,302	
Total Expenditures: 8-29-18	\$162,238,136	\$164,889,573	\$167,170,343	\$170,391,063	\$166,463,049	
Surplus/(Deficit w/out MARB funding)	(\$5,934,935)	(\$5,647,045)	(\$3,532,808)	(\$1,359,304)	\$2,337,165	
MARB Revenue	\$8,000,000	\$6,000,000	\$4,000,000	\$2,000,000	\$0	
FINAL SURPLUS (DEFICIT)	\$2,065,065	\$352,955	\$467,192	\$640,696	\$2,337,165	
Deficit as of 6/30/18 (Plan page 12)	(\$128,165)					
Proj Accum General Fund Balance	\$1,936,900	\$2,289,855	\$2,757,047	\$3,397,743	\$5,734,908	
Notes:						
1)	City increased Police Pension contribution to full Actuarial Determined Contribution (ADC). MARB staff has requested back-up					
2)	City presumes this amount is at \$0, which increases the projected operating surplus					
3)	Adjustment: Debt Service. MARB staff seeking reconciliation of plan debt service amounts & if includes FY19-23 CIP debt service					
4)	See page 5 of City 8-29-18 Plan. Plan assumes savings of .75% of total budget from Efficiency Initiatives in FY19; 1% in FY's 20-23					
5)	See page 5 of City 8-29-18 Plan. Cost to achieve administrative efficiencies is assumed to be 25% of savings					
ALLINGTOWN FIRE						
August 14, 2018 Plan						
	FY19	FY20	FY21	FY22	FY23	
Total Income	\$6,929,850	\$7,046,640	\$7,398,327	\$8,030,832	\$8,397,259	
Total Expenses	\$6,929,850	\$7,024,496	\$7,151,059	\$7,287,721	\$7,459,401	
Surplus/(Deficit)	\$0	\$22,144	\$247,268	\$743,111	\$937,858	
August 29, 2018 Plan						
	FY19	FY20	FY21	FY22	FY23	
Total Income	\$6,929,850	\$7,501,039	\$7,695,252	\$8,098,421	\$8,199,208	
Total Expenses	\$7,282,953	\$7,447,749	\$7,640,470	\$7,836,766	\$8,036,671	
Surplus/(Deficit)	(\$353,103)	\$53,290	\$54,782	\$261,655	\$162,537	
Notes:						
1)	Income: Difference 8/14 to 8/29	\$0	\$454,399	\$296,925	\$67,589	(\$198,051)
2)	Expenses: Difference 8/14 to 8/29	\$353,103	\$423,253	\$489,411	\$549,045	\$577,270
Notes:						
1)	Income difference is in Tax Collections					
2)	Expenses difference is related to "Healthcare Cost Shortfall" and for Pension Plan (ADC)					

Attachment 2: Follow-Up Items & Comments/Requests re 5-Year Plan from 8/22/18 MARB West Haven Committee Meeting (9-4-18 Updates in italics)

1) Follow-Up Issues re Projections

- Need to ensure that plan includes realistic net cost impact of expected salary increases, benefit revisions and other changes to employee costs ***Plan remains at 1% for “Compensation Incr” in years 4 & 5***
- Need information from BOE re their settled and open labor contracts ***Not received from BOE***
- Need to complete projections/crosswalk related to health insurance costs for City, BOE, Allingtown and Sewer Fund ***Not Received-requested***
- Need clarification re ADC calculations (talk with Milliman) ***Seeking back-up***
- Need to reconcile plan’s debt service (City/WPCA) with that provided in City’s FA schedules ***Seeking Clarification to reconcile numbers and determine if FY19-23 CIP included***
- Remaining questions on Attachment 3 of Bob D’s 8/21 memorandum

2) Additional Requests re Plan’s Approach to Financial Sustainability Issues

Area	Additional Plan Changes Requested
Administrative Capacity to identify and implement necessary changes	<ul style="list-style-type: none"> • Plan to build short-term and ongoing administrative capacity to achieve fiscal stability and strategic vision set for City (e.g. positions, consulting resources), including in regard to Finance Office, potential CAO, managing benefit costs, project management and execution, etc <i>See page 5 in plan</i>
Police and Allingtown Fire Pensions-(Allingtown 22% funded)	<ul style="list-style-type: none"> • ADC needs to be fully funded in Plan • Need to highlight need to review plans’ funding, actuarial assumptions (e.g. investment return assumptions) and other longer-term issues <i>Contributions have been increased in 8-29 plan; back-up requested</i>
OPEB Liabilities-City and Allingtown	<ul style="list-style-type: none"> • City is pay-as-you-go to date; plan includes amounts for advance funding of OPEB trust, starting with \$50,000 in FY20 and growing to \$125,000 in FY23; <i>Amounts too modest?</i> Need plans for Allingtown as well (pre-funding, other) <i>No changes</i>
Fire Districts/Departments’ (costs, unfunded Pension and OPEB liabilities)	<ul style="list-style-type: none"> • Include information in plan regarding combined current total of City/District pension and OPEB liabilities, as well as <u>combined mill rates</u> for each year of plan • Need to address how the financial burdens on West Haven and its residents by having three fire departments will be studied and recommendations developed <i>Combined mill rates provided; no changes otherwise</i>
Active Employee Health Insurance	<ul style="list-style-type: none"> • Need to complete work related to FY18 costs and FY19 and 20 projections in Segal report • Address necessary contingency/reserves (runoff) raised in Segal report and at MARB committee meeting • Consider development of reserve policies for health and other funds <i>As indicated above, seeking documentation</i>
Operational Efficiencies	<ul style="list-style-type: none"> • List other areas of operational and cost efficiencies (Solid waste, regionalization, consolidation/shared functions); Don’t necessarily need to attach numbers, just list/identify potential efficiency opportunities to review/pursue <i>See Attached page 5 from plan</i>
Debt	<i>As indicated, above seeking clarification</i>
Establish a Sufficient Fund Balance	<ul style="list-style-type: none"> • Need plan to show sufficient movement to 5%-10% GF fund balance <i>9-29 plan shows cumulative surplus of \$5.7 on \$166m budget 3.4%</i>