



STATE OF CONNECTICUT
OFFICE OF POLICY AND MANAGEMENT
OFFICE OF THE SECRETARY

April 19, 2018

The Honorable Nancy Rossi, Mayor
The Honorable Ronald Quagliani, City Council President
Neil C. Cavallaro, Superintendent, West Haven Public Schools
City of West Haven
355 Main Street
West Haven, CT 06516

Subject: MARB Committee Review of Proposed Budget; State Municipal Restructuring Funds

Dear Mayor Rossi, City Council President Quagliani and Superintendent Cavallaro:

The purpose of this letter is to discuss and follow-up on issues raised at the recent meetings of the Municipal Accountability Review Board's (MARB) West Haven committee. These issues include: the City's current fiscal year budget (FY2018) and the status of the previous year audit (FY2017); the Mayor's proposed budget for FY2019; and the status of the City's five-year recovery plan ("recovery plan") required to apply to the State Office of Policy and Management (OPM) for Municipal Restructuring Funds ("restructuring funds"). In addition, expectations with respect to OPM's awarding of the restructuring funds will be outlined below.

FY2018 City Budget; FY2017 Audit

The City's most recent projections for revenues and expenditures for the current year, made in March and based on year-to-date amounts through January 31, 2018, estimated a general fund deficit of almost \$8.1 million. This would be in addition to the \$1.3 million anticipated in the yet to be completed audit for FY2017. In regard to these matters, the committee requested the following items be submitted prior to the next full MARB meeting on May 3, 2018:

- 1) A schedule or information from the draft FY2017 audit indicating the causes of the projected \$1.3 million operating deficit. This will help in analyzing potential shortfalls or areas of concern in the FY2018 and FY2019 budgets. The completion of the audit will also be a critical component in OPM's and the MARB's evaluation of the City's restructuring funds application.
- 2) Updated projections for current FY2018 related to revenues and expenditures, utilizing year to date amounts through March 31, 2018. This, as we understand it, may also be required locally by your balanced budget ordinance.
- 3) The West Haven Public Schools should provide also updated projections for current FY2018 related to revenues and expenditures, including special education, utilizing year to date amounts through March 31, 2018.
- 4) An updated schedule from the City's Finance Department and financial advisor showing debt service payments and any bond premiums for Fiscal Year 2018, Fiscal Year 2019 and for the term of the existing bonds. This schedules should tie out to amounts projected for the current year, FY2018, the proposed budget for FY2019 and for each of the years of the recovery plan. These amounts should include the impact of any new issuances, including Bond Anticipation Notes (BANS). The City's financial advisor should also be asked to suggest any restructuring scenarios that might be feasible and appropriate given the City's declining debt service in the out years of the plan.
- 5) Detailed schedule(s) for the projections of health insurance costs for FY2018, FY2019 and for each year of the recovery plan, broken down for the City, Allington Fire, the Board of Education and the Sewer Fund. These projections should calculate the total costs of health coverage and the offsetting contributions by employees and other revenue sources in order to arrive at the employer's (i.e. the City's) cost. The assumptions used in making such projections, including health inflation, plan changes anticipated and others should be identified.

As I indicated at both the meeting of the Hartford MARB committee and at the West Haven committee meeting, it appears that OPM will receive more requests for restructuring funds for FY2018 than the \$27.2 million that is available. In addition, as indicated in the guidelines required by statute for the restructuring funds, priority will be given to municipalities whose plans include meaningful and achievable local actions when awarding funds. Therefore, the City is being requested to submit, prior to the May 3rd date noted above, for further review by the MARB and its West Haven committee, a detailed plan, containing specific amounts, action steps and dates, to reduce the current project deficit of approximately \$8.1 million as much as possible.

Mayor's Proposed Budget for FY2019

At its April 13th meeting, the West Haven MARB committee also again reviewed the Mayor's Proposed Budget for FY19. The information required above with respect to the FY2017 audit, updated FY2019 projections, debt service and health insurance projections and the plan to reduce the gap related to FY2018 will provide critical information that needs to be considered by both the City Council and the MARB when acting on the City's FY2018 budget and plans.

At its April 13th meeting, the MARB West Haven committee raised additional issues that will also have to be considered and addressed, as needed, in the adopted budget. These include:

- 1) The proposed budget increases the amount for current property taxes by \$800,000 above the March FY2018 projection despite a relatively flat grand list and a decrease in the assumed collection rate.
- 2) The proposed budget for State Education Cost Sharing (ECS) revenues does not appear to correctly handle the increase in FY 2019 ECS revenues. As an Alliance District, such increased amounts would be sent directly to the local Board of Education.
- 3) It will need to be determined if the contribution of \$1.1 million from the Sewer Fund reflected in the City's general fund budget has been adequately reflected in the Sewer Fund budget.

In addition, the Mayor's proposed budget fills in the City's structural gap with \$9.0 million in State restructuring funds. An issue in this regard is that the award of any amount of these funds depends on the submittal a Five-Year Recovery Plan which has not yet been submitted. In regard to the \$9.0 million assumed in the budget, the FY2019 budget should contain such actions as are necessary to limit the need for restructuring funds to \$6.0 million, or \$7.0 million provided that the budget makes adequate accommodation of the anticipated deficit for FY2017. In addition, as stated at committee meetings, the expectation is that the City's recovery plan, when submitted, will show a decreasing reliance on these recovery funds in future years.

Finally, in terms of MARB action on the City's FY2019 budget, it will be based on the following criteria outlined in the Board's adopted policies and procedures:

- a) The reasonableness of the assumptions utilized with respect to expenditures and revenues, including assumptions included in the recommended budget related to state revenues and property tax revenues and a mill rate;
- b) the overall balance and imbalance of expenditures and revenues;

- c) the achievability of efficiency measures included in the recommended budget;
- d) its impact on the municipality's long-term liabilities and the municipality's most current three-year financial plan; and
- e) any other issues or matters that would impact, in the MARB's opinion, the municipality's financial sustainability and vitality.

For planning purposes, the table at right shows a summary of recommended Municipal Restructuring and Contract Assistance payments for the two communities currently under MARB supervision. OPM will offer this distribution of the Municipal Restructuring funds to the MARB for their recommendation in May, 2018. These amounts are subject to change based on that recommendation, and are subject to all the requirements outlined in this letter.

| | Hartford | \$ millions | | | | Total |
|------------|----------|-------------------------|---------------------|-----|-------|-------|
| | | Municipal Restructuring | Contract Assistance | * | ** | |
| | FY 18 | \$ 20 | \$ 17 | * | \$ 37 | |
| | FY 19 | \$ - | \$ 40 | ** | \$ 40 | |
| West Haven | | | | | | |
| | FY 18 | \$ 8 | \$ - | | \$ 8 | |
| | FY 19 | \$ 8 | \$ - | | \$ 8 | |
| Total | | | | | | |
| | FY 18 | \$ 28 | \$ 17 | *** | \$ 45 | |
| | FY 19 | \$ 8 | \$ 40 | | \$ 48 | |

* \$5m of 2018 debt service payment will apply to 7/1/18 payment

** Final amount estimated, subject to OTT restructuring

*** FY18 Municipal Restructuring Funds has \$700,000 holdback

Fiscal Sustainability

As was discussed at the MARB West Haven committee meetings, the City faces a significant ongoing gap that requires major structural changes in regard to property taxes and other revenues and in the major categories of costs. The City's budgets and five-year recovery plan must reflect significant actions with respect to these structural changes. A number of the areas in need of reform have been discussed at meetings and reflected on committee agendas. As just one area, the committee and the Mayor have discussed moving forward expeditiously on hiring an independent benefits consultant to assist with analyzing needed changes in this regard. These structural changes will be a continuing focus of the committee and the MARB. As allowed by Public Act 17-2, the plan is to use a portion of the restructuring funds identified in the table above help implement needed changes.

Conclusion

The members of the MARB appreciate your assistance in regard to these matters and look forward to working together with the City to achieve short and long-term budget balance and fiscal stability for West Haven and its residents.

Sincerely,

A handwritten signature in blue ink, appearing to read "Benjamin Barnes".

Benjamin Barnes, Secretary

cc: Members of the MARB
Larry Wilson, Deputy State Treasurer-Interim
Robert Dakers, OPM
Alison Fisher, OPM
Riju Das, State OTT