

**MUNICIPAL ACCOUNTABILITY REVIEW BOARD (MARB)**

**MEMORANDUM**

TO: Members of the Municipal Accountability Review Board

FROM: Robert Dakers and Julian Freund, OPM

SUBJECT: Review of City's Revised 5-Year Plan Dated September 28, 2018

DATE: October 2, 2018

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**Status of Five-Year Plan**

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).

At the September 27 meeting of the West Haven committee, a revised 5-Year Plan (9/21/18 version) and staff's analysis of that Plan were discussed. The Sept. 21 Plan reflected substantial progress in refining projections and addressing issues raised by the MARB in prior meetings.

During the discussion on September 27, the committee highlighted areas of the Plan requiring additional consideration or clarification. The City submitted a revised 5-Year Plan on September 28 with additional materials responding to the issues discussed at the committee meeting.

The narrative below is excerpted from staff's review of the September 21 plan. Each section is followed by the outstanding issues raised by the committee during the September 27 meeting, and how the City has responded to that feedback. While many of the items entailed some modification to the 5-Year Plan and are reflected in the September 28 version, some do not have a direct effect on the Plan itself (ex. the requirement for regular monthly financial reporting).

***Excerpted from staff memo 9/26:***

- 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.

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***Committee/Staff Comments:***

- *Health insurance costs are largely based on Segal analysis, but use a higher inflation factor*
- *Shift in employee premium share across funds needs explanation.*
- *Need clarity on how IBNR is being addressed*

***City Response/Revision to 5-Year Plan:***

- *Health insurance costs are based on Segal estimates for FY 2019 and FY 2020, and use Segal’s projected 7.6% inflation factor for City costs in the remaining years of the plan. The plan also funds a 3% self-funded claims margin in each year of the plan (calculated as a percentage of health claims net of employee contributions).*
- *In the aggregate, City health insurance estimates for FY 2018 appear consistent with Segal estimates. The shift in employee premium share amounts in FY 2019 are attributable to more accurate allocation of employee claims across the three City funds.*
- *The City is inquiring with its auditor regarding the treatment of the estimated IBNR of \$2.075 million as of 6/30/18.*

**Excerpted from staff memo 9/26:**

- 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).

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***Committee/Staff Comments:***

- *MARB may want to request a financial and administrative organizational plan to address Administrative Capacity*

***City Response/Revision to 5-Year Plan:***

- *The City has included \$125,000 to fund 2 additional positions in the Finance Dept. beginning in FY 2020. Analysis of Finance Dept. operations by a consultant is in process and expected to be completed in the next week. The analysis will provide detail on the roles of the new positions and timelines for filling them.*

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**Excerpted from staff memo 9/26:**

- 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.

| <b>Allingtown Fire</b>                              | <b>FY19</b>  | <b>FY20</b>  | <b>FY21</b>  | <b>FY22</b>  | <b>FY23</b>  |
|---|--------------|--------------|--------------|--------------|--------------|
| 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.

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***Committee/Staff Comments:***

- *An apparent discrepancy in Allingtown Fire Pension funding needs clarification*

***City Response/Revision to 5-Year Plan:***

- *The aggregate pension funding provided in three separate expenditures items on page 33 of the revised plan (Pension Plan District’s Share; Pension Plan Retiree’s Benefit; Additional Pension Funding) meet the ADC requirement in the actuary report. An additional expense item, 401(k) Contribution, has been broken out and separated from projected pension funding.*

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***Excerpted from staff memo 9/26:***

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.

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**Committee/Staff Comments:**

- *Following completion of current 5-year plan, Staff recommendation to consult with City’s actuaries to develop approach to OPEB and long-term liabilities.*
- *Long term strategy for addressing long-term liabilities to be reflected in 2019 submittal of 5-Year Plan.*

**City Response/Revision to 5-Year Plan:**

- *No change in plan*

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**Excerpted from staff memo 9/26:**

5. **Fire Districts/Department.** On page 47 of the City’s September 21<sup>st</sup> 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 1<sup>st</sup> 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.

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**Committee/Staff Comments:**

- *A revised timeline that reflects completion of a methodology and study scope by end of calendar year would be more realistic.*

**City Response/Revision to 5-Year Plan:**

- *The City has indicated intent to contract with MMA and develop scope, approach and timeline by 12/1/18.*

**MARB Staff Response:**

- *Scope, approach and timeline should be shared, for comment, with MARB prior to finalizing contract*

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**Excerpted from staff memo 9/26:**

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.

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***Committee/Staff Comments:***

- *Address reasonableness of assumptions.*

***City Response/Revision to 5-Year Plan:***

- *The City reports that compensation assumptions in the Plan are aligned with the current status of negotiations and similar to collective bargaining results in the City of Hartford.*

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***Excerpted from staff memo 9/26:***

- 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.

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***Committee/Staff Comments:***

- *Potential discrepancy between Transfer Out from WPCA Fund and Transfer In to General Fund*

***City Response/Revision to 5-Year Plan:***

- *City staff is researching this item.*

**Excerpted from staff memo 9/26:**

- 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.

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**Committee/Staff Comments:**

- *Operational efficiencies in the current fiscal year may not be achievable if not already in the implementation phase.*

**City Response/Revision to 5-Year Plan:**

- *The savings associated with operational efficiencies in the current fiscal year have been taken out of the revised Plan.*
- *Initiatives to identify cost savings in several operational and administrative areas are underway, including property tax collections, benefits administration, workers comp administration, and time tracking practices.*

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**Excerpted from staff memo 9/26:**

- 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



| <u>Education</u>          | <u>FY19 Budget</u> | <u>FY20 Plan</u> | <u>FY21 Plan</u> | <u>FY22 Plan</u> | <u>FY23 Plan</u> | <u>Total Incr</u> |
|---------------------------|--------------------|------------------|------------------|------------------|------------------|-------------------|
| 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%            |                   |

**Committee/Staff Comments:**

- Annual increases in ECS funding may not be a sufficiently conservative assumption.

**City Response/Revision to 5-Year Plan:**

- ECS projections have been level funded in the revised Plan.
- Education expenses in the revised Plan have been adjusted to reflect annual increases in local Education funding of 0.4%.

**Excerpted from staff memo 9/26:**

**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  |



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**Committee/Staff Comments:**

- *Certain revenue sources were increased by 3% per year in a previous version of the Plan with little documentation or analysis to support the increases.*

**City Response/Revision to 5-Year Plan:**

- *Town Aid Roads and Veterans Tax Relief have been adjusted to level funding throughout the 5-year period.*
- *The majority of other non-tax revenue sources continue to assume annual increases of 3%.*
- *The 9/28 Plan assumes some sources will increase at rates greater than 3%:*
  - *Rents from City Facilities 25%*
  - *Record Legal Instruments 5%*
  - *Parking Meters 30%*
  - *Sewer Collection Fee 6%*

**MARB Staff Comments:**

- *City documentation to justify increases should be provided to MARB*
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**Excerpted from staff memo 9/26:**

**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.

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**Committee/Staff Comments:**

- *Monthly budget monitoring and reporting will be required.*

**City Response/Revision to 5-Year Plan:**

- *The new West Haven Finance Director is working on generating reports from the financial system and developing a monthly report that is similar to the format submitted by the City of Hartford.*
  - *The monthly report will evolve over time to accommodate the needs of management and the MARB.*
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***Excerpted from staff memo 9/26:***

**12. Fund Balance.** The projected accumulated General Fund balance at the end of fiscal year 2022-23 in the September 21<sup>st</sup> 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.

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***Committee/Staff Comments:***

- *Discussion raised the idea of establishing a fund balance policy.*

***City Response/Revision to 5-Year Plan:***

- *Fund Balance in the revised Plan reaches approximately 5% of expenditures by FY 2023.*
- *The ending fund balance in the revised plan is comparable to the ending fund balance in prior versions of the Plan.*

***MARB Staff Comment:***

- *City and MARB should work to establish reserve policies for General Fund, health insurance and in other areas as appropriate.*
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***Excerpted from staff memo 9/26:***

**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    |
| <b>Total</b>        | \$ 6,929,850    | \$ 460,516   | \$ 223,785   | \$ 158,866   | \$ 124,774   | \$ 86,269    |

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**Committee/Staff Comments:**

- *Certain revenue sources were increased by 3% per year in a previous version of the Plan with little documentation or analysis to support the increases.*

**City Response/Revision to 5-Year Plan:**

- *Non-tax revenue sources in the 9/28 Plan are based on historical data analysis.*

**MARB Staff Comment:**

- *City documentation to support non-tax revenue assumptions should be provided to MARB*
  - *Supplemental Tax in current year is critical component of City's plan*
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**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.

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**Committee/Staff Comments:**

- *Confirm that all health insurance and other fringe benefits have been accounted for in revised Plan.*

**City Response/Revision to 5-Year Plan:**

- *In a prior version of the Plan, Fringe Benefits was revised to only include Health Insurance. Other benefits were moved to the Contingency account.*
  - *The 9/28 version breaks out the other benefits (401k contributions) in a separate account.*
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***Excerpted from staff memo 9/26:***

**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.

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.”

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.

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***Staff Comments:***

- *Responses to items 1 and 2 in the Conclusion are addressed throughout the above narratives.*
  - *The approval of Restructuring Funds may be made conditional upon resolution of any remaining open issues or as the Secretary and MARB deem appropriate.*
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Cc: Mayor Nancy Rossi, City of West Haven  
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