MEMORANDUM
MUNICIPAL ACCOUNTABILITY REVIEW BOARD

To: Members of Municipal Accountability Review Board

From: Julian Freund, OPM

Date: August 9, 2019

Subject: City of Hartford 3-Year Financial Plan FY 2020 – FY 2023

Background

The contract for financial assistance between the City of Hartford, OPM and the Treasurer's Office requires that the City annually submit to the agencies an updated three-year financial plan. The City included, as part of the FY 2020 budget document, a three year projection of revenues and expenditures. Those projections have been expanded to provide detailed revenue and departmental projections in the attached updated 3-Year Plan.

Analysis of Assumptions

For the most part, the updated plan carries forward the same assumptions as were incorporated into the original 5-Year Plan with some adjustments to the baseline year to reflect budget results for FY 2018 and projected revenues and expenditures for FY 2019.

Property Taxes

Flat mill rates of 74.29 mills for real estate and personal property (RE/PP) and 45.00 mills for motor vehicles (MV) are used throughout the forecast period. Grand list assumptions are updated to reflect the October 2018 grand list as the basis for FY 2020. Annual grand list increases of 1.5% in the remaining years, except for the revaluation year in FY 2023, is consistent with the prior plan. The tax collection rate is also updated to 96.05% consistent with the City's charter requirement to use the average of the three prior years.

Licenses and Permits

One adjustment to the baseline to reflect changes in the fee schedule is followed by projected increases of 1% per year for Licenses and Permits. The prior plan projected flat revenues from this category.

Fines, Forfeits and Penalties

These revenues are based on the same assumptions as the prior plan.

Intergovernmental Revenue

Revenue from the State is updated to reflect the adopted State budget and then held flat throughout the forecast period.

Charges for Services and Reimbursements

For both of these revenue categories, a resetting of the baseline revenues is built in to reflect recent actuals, followed by flat revenues in the out years.

Other Revenue

Other Revenues are based on the same assumptions as the original plan after resetting the baseline to reflect recent actuals.

Other Financing Sources

Other Financing Sources have been adjusted to include the annual $10 million corporate contributions, but otherwise are consistent with the revenues in the original plan.

Payroll/Personal Services

The baseline for Payroll costs is reset to reflect a higher head count of 1,403 compared to 1,361 in the original plan, with a level head count assumed for the forecast period. Costs increase at a slower pace at 1.2% compared to 1.5% in the original plan.

Health Benefits

Health benefits reflect the City's shift away from PPO plans to high deductible plans which the City has accomplished through collective bargaining processes. An annual health cost inflation factor of 7% per year is used throughout the forecast period.

Pension

Baseline pension costs for the MERF plan are based on the City's July 2018 pension valuation and reflect a reduction in the investment rate of return in the pension fund to 7.375% in FY 2020 and to 7.25% in the out years (as presented at the February subcommittee meeting). Contributions to CMERS are based on a 3% escalation rate, consistent with the prior 5-year plan. Pension contributions to the City's closed plans are held flat, also consistent with the prior plan.

Debt Service

Debt Service projections are consistent with the prior plan and reflects a continuation of payments for Hartford Stadium debt service, grants-in-lieu-of-taxes debt service and brownfield redevelopment debt service only. No new debt service is incorporated into the plan.

Education

The City's contributions to Education are held flat throughout the planning period, consistent with the prior plan.

Library

The plan does not make any changes to the funding model for the Hartford Public Library.

Utilities

Utility costs are forecasted with the same methodology as the prior plan.

Impact on Fund Balance

While the updated forecast projects balanced budgets with no projected changes in fund balance during the planning period, balance in the out years relies on labor savings and other mitigation measures yet to be determined. Modest operating gaps of between $1.26 million to $2.26 million are shown for the out years which will need to be closed through a combination of labor and other savings (or revenue enhancements). The opening narrative of the plan indicates that the City Council is required by Charter to adopt balanced budgets and that budget adjustments will be made to address gaps prior to adoption.

The most recent financial report from the City projected a budget surplus of about $3.5 million for FY 2019. This projection takes into account (is net of) additional investments out of the FY 2019 operating budget for pay-as-you-go capital improvements ($10.5 million) and vehicles and equipment ($4.6 million).