

MUNICIPAL ACCOUNTABILITY REVIEW BOARD

MEMORANDUM

TO: Members of the Municipal Accountability Recovery Board (MARB)

FROM: Alison Fisher, OPM 

SUBJECT: West Haven Ad-Hoc Committee Update; Proposed Resolution re the City's Fiscal Year 2018-19 Annual Budget

DATE: May 2, 2018

In advance of tomorrow's meeting, OPM staff wanted to update the full Board on the activities of the Ad-Hoc West Haven MARB committee regarding the City of West Haven's proposed budget for fiscal year 2018-19. As a result of these activities, there is a proposed resolution (see attached) related to the City's FY2017-18 projected deficit, as well as issues associated with the FY2018-19 proposed budget. Under Public Act 17-2, the MARB shall review and comment on proposed annual budgets and approve the assumptions used in annual budgets related to property tax revenue calculations and state revenues.

The City of West Haven is currently projecting a deficit of nearly \$8.0m in FY2017-18. In addition, a draft audit indicates a projected carryover deficit of \$1.4m from FY2016-17. The combined overall loss for both years is projected at over \$9.3m. In addition, the City's proposed budget contains for fiscal year 2018-19 includes an amount of \$9.0m in State Municipal Restructuring Funds to address the ongoing structural gap.

In Secretary Barnes' April 19, 2018 letter to the City (attached to the resolution), the Secretary noted that for fiscal years 2017-18 and 2018-19 OPM would likely receive more requests for Restructuring Funds than it has funds available in this account. The letter outlined potential allocations in this regard. In addition, the letter raises a number of other issues regarding the projections and assumptions used in the proposed budget, including:

- 1) Current and Arrears property tax collection assumptions
- 2) Handling/budgeting for Education Cost Sharing funds (as an Alliance District)
- 3) Transfers to and from the Sewer Fund in the proposed FY2018-19 budget
- 4) Health Insurance Projections
- 5) Pension Contributions for the Police and Allingtown Pension Funds
- 6) Debt Service
- 7) Special Education Tuition Costs

The City has been providing additional information in regard to the above items.

Based on these issues, the MARB West Haven Committee is recommending for the full MARB's consideration of the attached resolution that allocates Restructuring Funds in the amount of \$8.0m for fiscal year 2018-19 in the following manner:

- \$6.0m to be used to fund FY2018-19 operations
- \$1.75m to be used to address deficits from prior year (including the \$1.4 million) and fund balance restoration;

- \$250,000 to be used to cover current and future MARB expenses, as they relate to the City of West Haven

The resolution conditions these funds on a finding by the MARB that the City's adopted budget includes this allocation of Restructuring Funds and that the City's budget is balanced, both in the manner in which it addresses the reduction of Restructuring Funds available to fund fiscal year 2018-19 operations, and in relation to the budget items listed above.

In addition, the City has not yet submitted a 5-year Recovery Plan to the MARB. This plan is a requirement of all municipalities in order to receive Restructuring Funds. Any Restructuring Funds awarded to the City must be conditioned upon the receipt of such plan. Additionally, the Ad-Hoc West Haven MARB committee has recommended that the City evaluate and implement a variety of efficiency measures (including but not limited to health insurance changes, consolidation of services, etc.) to continue to reduce the cumulative and structural deficits as much as possible.

Please contact myself or Robert Dakers if you have any questions in this regard.

Attachment: West Haven Resolution

PROPOSED 5-3-18

**Resolution of the State Municipal Accountability Review Board
Regarding the
City of West Haven's Fiscal Year 2017-18 Budget & Proposed Annual Budget for Fiscal Year 2018-19**

May 3, 2018

WHEREAS, the City of West Haven is a designated Tier III municipality under Public Act 17-2 ("the Act"), which designation involves oversight by the Municipal Accountability Review Board ("MARB");

WHEREAS, the MARB, under the Act, has responsibilities for reviewing, monitoring and taking certain actions related to existing and proposed budgets and financial plans, including approving any assumptions to be used with respect to property tax revenues and state revenues in annual budgets;

WHEREAS, the City of West Haven is projecting a deficit of almost \$8.0 million in the current fiscal year, 2017-18, and its draft audit for the previous fiscal year is projecting a deficit of approximately \$1.4 million for the previous fiscal year, 2016-17, resulting in combined projected operating budget losses of over \$9.3 million;

WHEREAS, the Mayor's Proposed Budget for Fiscal Year 2018-19 proposes to achieve balance through various personal and expenditure reductions and the receipt of \$9.0 in State Municipal Restructuring Funds ("restructuring funds") available to Tier III municipalities according to the Act, which funds are to be awarded and administered by the Secretary of the Office of Policy and Management ("OPM") in consultation with the MARB;

WHEREAS, the guidelines for the award and administration of the restructuring funds require eligible municipalities to submit an application, which application shall include, among other items, the municipality's five-year recovery plan, which shall outline both the funds requested and the actions to be taken by municipality to achieve structural budgetary balance;

WHEREAS, while the City of West Haven has indicated it will seek state restructuring funds related to its projected fiscal year 2017-18 projected deficit, and potentially the projected fiscal year 2016-17 deficit, and for the \$9.0 million gap in the proposed fiscal year 2018-19 budget, the City has not submitted the five-year recovery plan included in the requirements for the receipt of these funds;

WHEREAS, the MARB's ad-hoc committee for West Haven budget and financial matters has been meeting to review the City's fiscal year 2017-18 budget, the proposed fiscal year 2018-19 budget and factors impacting the City's long-term budgetary balance, the results of which, including requests for additional information, are reflected in the attached April 19, 2018 letter (Attachment A) sent to the City by OPM Secretary Barnes;

WHEREAS, in the attached letter, Secretary Barnes requested updated information, by May 3rd, regarding: 1) the deficit in the fiscal year 2016-17 audit; 2) projections for fiscal year 2017-18; 3) debt service schedules for fiscal years 2017-18 and 2018-19; 4) projections for health insurance for the City, education, the sewer fund and Allingtown Fire; and 5) a plan to mitigate the deficit in the current year;

WHEREAS, the Secretary's letter also addressed issues associated with current property tax collections and the handling of both additional State Education Cost Sharing funds and of the transfers-in and out associated with the sewer fund in the proposed budget for fiscal year 2018-19, and further indicated that such budget should contain such actions that are necessary to limit the need for restructuring funds to \$6.0 million, as opposed to the \$9.0 million in the proposed budget, with an additional with additional funding potentially available to address prior year deficits and MARB expenses; and

WHEREAS, the Secretary's letter stated that the expectation is that the City's recovery plan, when submitted, will contain a decreasing reliance on recovery funds in future years and the need for major structural changes in regard to property taxes and other revenues in order to address the City's structural gap.

NOW, THEREFORE, BE IT RESOLVED, that the City submit the requested action plan to mitigate the current fiscal year, 2017-18, projected deficit to the extent possible, not later than (date);

BE IT FURTHER RESOLVED, that that the MARB hereby approves the property tax revenue collection assumptions in the proposed budget for fiscal year 2018-19 for use in the adopted annual budget for such year, conditioned upon verification that the assumed percentage current tax collection rate for current taxes is no higher than the average for the three-years ending June 30, 2017 and the amount of the taxable grand list, which approval does not relate to the sufficiency of the mill rate in the proposed budget;

BE IT FURTHER RESOLVED, the MARB approves assumptions related to State revenues in the proposed fiscal year 2018-19 budget, with the following exceptions:

- 1) that any increase in Education Cost Sharing revenue be budgeted in accordance with the requirements of West Haven's status as an Alliance School District;
- 2) that the amount of the restructuring funds for fiscal year 2018-19 operations be reduced from \$9.0 million to \$8.0 million, provided that such budget separately establishes amounts of no more than \$6.0 million to fund fiscal year 2018-19 operations, a minimum of \$1.75 million restricted to prior year deficit reduction and fund balance restoration and \$250,000 for current and future MARB expenses; and

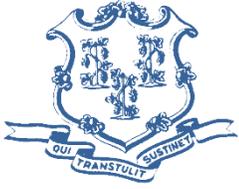
BE IT FURTHER RESOLVED, that the MARB recommends that the City's receipt of restructuring funds for fiscal years 2017-18 and 2018-19 be conditioned upon the receipt and State acceptance of the City's five-year recovery plan and the MARB's finding, based on documentation acceptable to the MARB, that the adopted annual budget for fiscal year 2018-19 does the following:

- 1) conforms with the assumptions and conditions approved in this resolution regarding property tax revenues and State revenues;
- 2) budgets sufficient amounts, in all funds, for health insurance, debt service, pensions and special education costs;
- 3) provides sufficient resources in the sewer fund budget to fund the transfer out to general fund;
- 4) has revenues and expenditures for the Allingtown Fire Department that are balanced; and

- 5) contains actions necessary to reduce the restructuring funds from \$9.0 million to \$6.0 million for fiscal year 2018-19 operations in a manner that conforms to budget evaluation criteria from the MARB's policies and procedures, attached hereto as Attachment B.

ATTACHMENT A - SECRETARY BARNES LETTER of APRIL 19, 2018

ATTACHMENT B - MARB BUDGET REVIEW CRITERIA



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, Allingtown 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.

\$ millions					
		Municipal Restructuring	Contract Assistance		Total
Hartford	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 that reads "Benjamin Barnes". The signature is written in a cursive style with a large initial "B".

Benjamin Barnes, Secretary

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

MARB BUDGET REVIEW CRITERIA

1. The reasonableness of the assumptions utilized with respect to expenditures and revenues.
2. the overall balance and imbalance of expenditures and revenues;
3. the achievability of efficiency measures included in the recommended budget;
4. its impact on the municipality's long-term liabilities and the municipality's most current three-year financial plan; and
5. any other issues or matters that would impact, in the MARB's opinion, the municipality's financial sustainability and vitality.