

**Financial Review and Audit Commission  
City of New Haven**

**Report on the Mayor's Monthly Financial Report for the Month Ending Nov. 30, 2012  
January 5, 2013**

Section 64 of Article XI of the City Charter requires the Financial Review and Audit Commission to submit by the tenth day of each month a report to the mayor and the Board of Aldermen containing such comments and recommendations concerning the financial report the mayor issued during the preceding month pursuant to section 62 and the city's financial condition as the commission may deem appropriate.

The commission met on January 3, 2013 to consider Mayor DeStefano's Monthly Financial Report for the Month Ending November 30, 2012 that was submitted on December 28, 2012. On behalf of the commission, I submit this report concerning that financial report.

**The Deficit.** The financial report projects a General Fund deficit of \$1,971,664, which is approximately \$130,000 greater than the projected deficit in the previous monthly report. While expenditures are projected to be \$2 million less than budgeted, revenues are projected to be nearly \$4 million less than budgeted. Page 3 of the report presents the budgeted and projected expenditures and revenues as follows:

	BOA approved	Projected as of 11/30	Difference
Expenditures	\$486,400,365	\$484,390,562	- \$2,009,803
Revenues	\$486,400,365	\$482,418,898	- \$3,981,467
Deficit	-	\$1,971,664	\$1,971,664

**Expenditures.** Page 4 presents the budgeted and projected General Fund expenditures for FY 12-13. A comparison of columns 2 (FY revised budget) and 7 (FY projection), presented in column 8, identifies the following projected overruns in expenditures relative to the budgeted amounts:

Public Safety Communications	\$180,932
Police	\$546,142
FICA/Medicare	\$650,000
Sandy (estimated 25% of costs)	\$329,847

These projected overruns in expenditures, which total approximately \$1.7 million, are anticipated to be offset by reductions, relative to the budgeted amounts, of \$2 million in debt service and \$275,000 in workers compensation. However, the total projected expenditures of \$484.4 million assume savings totaling \$5 million which may not be fully realized – \$2.5 million in labor savings, \$654,900 in vacancy savings, \$1.1 million in non-personnel savings, and \$800,000 in encumbrance savings.

Regarding the expenditure overruns, the data on page 1 of the report under "public safety projections" indicate that the projected overruns in expenditures for public safety communications and police are accounted for entirely by overtime, which is projected to exceed the budgeted amounts by \$189,554 for public safety communications and \$2,690,500 for police. It should be noted that those projected overruns for overtime are substantially less than the amounts projected in the previous monthly report (\$455,704 for public safety communications and \$2,889,611 for police).

The projected overrun for overtime in fire is now estimated to be \$1,739,073, compared to \$1,679,571 in the previous monthly report. However, that overrun is projected to be offset by a reduction in salaries relative to the budgeted amount. More than one-third of the reduction in salaries will be accounted for by the postponement of a new class of 45 fire recruits, originally scheduled for March, to the next fiscal year. That will reduce the expenditure for fire salaries in FY 12-13 by roughly \$670,000. Eliminating those salaries, coupled with an additional anticipated reduction, relative to the budgeted amount, of \$1 million in salaries, will offset the projected overrun in overtime and bring total expenditure for the department down to the amount budgeted for the year.

**Assumed Savings.** Regarding the assumed labor, vacancy, non-personnel, and encumbrance savings, the commission remains concerned that, as noted above, those savings may not be fully realized, meaning that total General Fund expenditures for the year may be considerably more than \$484.4 million. Indeed, in the worst-case scenario, if none of those assumed savings were realized, total expenditures would be more than \$5 million greater than the \$484.4 million projected in the monthly report, raising the deficit from the currently-projected \$2 million to roughly \$7 million.

The \$2.5 million in labor savings represents anticipated current-year savings resulting from new contracts negotiated with the various bargaining units with expired contracts. As the report notes on page 1, the contract with Local 884 has been implemented and a contract with Local 3424 modeled on the Local 884 contract has been signed and ratified and awaits review and approval by the Board of Aldermen. As the report notes, the contract with Local 3424 is primarily focused on medical benefits and salary since the members are not part of the city employment retirement fund.

The commission is concerned that, with a substantial portion of the fiscal year having already passed, with negotiations completed with only two bargaining units and only one contract implemented thus far, and with the outcome of the remaining negotiations uncertain, the city is unlikely to realize the full \$2.5 million in labor savings anticipated when the FY 12-13 budget was prepared and approved. It is difficult to estimate the precise current-year fiscal impact of the Local 884 and Local 3424 contracts. There are likely to be substantial savings over the longer term resulting from changes in healthcare plans, including the addition of a high deductible plan, increased employee medical cost-sharing, changes in pension benefits based on a tiered system, and elimination of longevity payments for newer employees. There may well be some current-year savings, net of the 3 per cent across-the-board increase in wages in the Local 884 contract, resulting from the changes in healthcare plans. But it seems increasingly unlikely

that the city will realize in this fiscal year the full amount of labor savings anticipated in the budget.

The commission is also concerned that the city may not realize the full \$2.655 million anticipated from non-personnel savings, encumbrances, and vacancy savings. It should be noted, for example, that the amount of non-personnel savings (\$1.097 million) is more than \$100,000 less than what was projected in the previous monthly report and the amount of vacancy savings (\$654,900) is more than \$185,000 less than what was projected in the previous monthly savings, largely because vacancy savings have been used for various purposes such as offsetting overtime and covering tax appeal legal fees.

**Revenues.** Turning to revenues, pages 6 and 7 of the monthly report present the budgeted and projected General Fund revenues for FY 12-13. A comparison of the first and third columns, presented in the fourth column, identifies the following projected shortfalls in revenues relative to the budgeted amounts:

PILOT Colleges & Hospitals	\$2,446,517
PILOT State Property	\$103,393
PILOT Machinery/Equipment	\$88,460
State Grant for Property Tax Relief	\$479,971
Parks- Kiosks/vendors	\$200,000
Traffic & Parking Meter Receipts	\$400,000
Building inspections	\$1,200,000

With two exceptions, these shortfalls have been evident for some time and were noted and discussed in previous reports. But two are new – the shortfall in state PILOT funds for machinery and equipment and, more importantly, the shortfall in the budgeted state grant for property tax relief. Regarding the latter, the city now anticipates the city's revenue will be identical to last year's grant of \$3.4 million rather than the budgeted amount of nearly \$3.9 million.

Taken together, these projected shortfalls in revenues total approximately \$4.9 million. That shortfall is projected to be partially offset by an additional \$725,000 in receipts from parking tags beyond the amount budgeted and an additional \$175,000 in the real estate conveyance tax above the amount budgeted. But as the figures on page 3 of the monthly report indicate, that will leave the city's revenues this year some \$4 million below the amount assumed in the budget.

**Assumed Revenues.** Beyond that projected shortfall of \$4 million in revenues, the commission is concerned that certain other revenues may not be realized to the extent assumed in the monthly report. In particular, the projected revenues on pages 6 and 7 assume the city will receive \$2.1 million for building permits for 100 College St. and \$700,000 for building permits for phase 2 at Science Park. In order to contribute to revenues in the current year, those permits will of course have to be issued by June 30. That may well happen but is by no means certain at this point. The projected revenues also assume the city will receive an additional voluntary payment of \$1.6 million from Yale-New Haven Hospital because of the recalculation of its bed

count after the merger with the Hospital of St. Raphael. Whether that additional contribution will be received remains uncertain, especially in the wake of the state's recent measures to alleviate its current-year deficit, some of which will have an adverse effect on the hospital.

In the worst-case scenario, if the city realizes no revenues from building permits for 100 College St. and Science Park and the additional contribution from Yale-New Haven Hospital, its revenues will be reduced by an additional \$4.4 million. Continuing with the worst-case scenario, if, in addition, the city realizes none of the assumed labor, non-personnel, vacancy, and encumbrance savings that, taken together, are projected to be \$5 million, it would end this year with a deficit of more than \$11 million (the current projected deficit of \$2 million + reduced revenues of \$4.4 million + unrealized savings of \$5 million).

It is possible that the city will, as projected in the November report, conclude the current fiscal year with a deficit in the range of \$2 million. But that will happen only if all of the revenues from the building permits and the hospital and all of the various savings described above are realized. To the extent that any of those assumed revenues and savings is not realized in full, the deficit will be larger than the current projection of \$2 million. It is reasonable to anticipate that at least some of those revenues and savings will be realized, at least in part, and that the deficit will not reach \$11+ million. But it is also reasonable to anticipate that some of those revenues and savings will not be realized in full and that the deficit will be larger – perhaps substantially larger – than the deficit projected in the monthly report.

**Action Plan to Reduce Deficit.** In view of the projected deficit in the previous month's report, the mayor proposed an action plan that was outlined on page 9 of that report. In this month's report, the plan is presented on page 9 with some additional elaboration. Several elements of the plan – the vacancy, non-personnel and encumbrance savings, the 100 College St. and Science Park building permits, the additional Yale-New Haven contribution – have already been mentioned. In addition, the plan indicates the city will seek to maximize revenue collections (although the collection rate is already very high), including a "personal property tax initiative" that it is assumed will yield \$1.5 million, conduct a bond fund sweep that has generated \$140,000, sell 10 Wall St. (not yet appraised), institute a parking tag amnesty program with a target of \$350,000, and possibly adjust the annual contributions for the pension fund and medical self-insurance (although the latter currently has a negative fund balance of \$1.2 million).

If implemented, all of those measures taken together will reduce the deficit by some as-yet-unknown amount. But the commission believes those measures may not suffice to eliminate the deficit that will exist in the likely event the city does not realize in full all of the assumed revenues and savings described above. That being the case, the commission believes the city must not only implement the measures identified in the mayor's proposed action plan but prepare additional, substantial deficit-reduction measures in the remaining six months of the current fiscal year.

  
David R. Cameron, Chair