City of New Haven

Public Interest & Ability to Pay Analysis

UE Local 222 CILU/CIPU, Local 71 – June 24, 2013

Public Interest & Ability-to-Pay Analysis -Table of Contents

- Tab I – City Statement of Public Interest
- Tab II – City Summary Facts
- Tab III – City Revenue Deterioration
- Tab IV – City Expenditure Drivers
- Tab V – City Public Interest & Ability to Pay

Tab I

City Statement of Public Interest

City Statement of Public Interest

- **Academic Success of Public School Children**
  - Closing the achievement gap to the state average.
  - Cutting the drop-out rate in half.
  - Aspiration for and the support to get high school graduates to and through college.
- **A City That Works**
  - Downtown mixed-use community of commercial, residential and retail occupancies.
  - Promotion of the city as a national center of life and bio science commercial development.
  - Transformation of the city center into a strong job and tax revenue generator.
- **Public Safety & Strong Neighborhoods**
  - Clean, safe mixed-income housing stock.
  - Promotion of commercial corridors and soundly maintained public infrastructure.
  - Responsive and effective public safety support for all residents and visitors.
  - Support for populations at severe risk of harm.

Tab II

City Summary Facts

City Summary Facts
Economic Demographics

Analysis:

•The City is densely developed and fully built out.
•Continued high tax rate and low property wealth dramatically impairs the City's ability to support the public interest.
•Hosts a large share of the state's at-risk population.

Owner-occupied dwellings	23%	2nd lowest in state
Subsidized housing units	27%	13% of state, 2nd highest
Tax-exempt property	48%	2nd highest in state
Developable acres	164	1.4% of all land
Equalized mill rate	28.3	3rd highest in state
Median Household Income	$39,094	56.5% of State median of $69,243
Equalized net grand list per capita	$59,791	4th lowest in state

Sources: Connecticut Conference of Municipalities, *A Tale of Disproportionate Burden: The Special Needs of Connecticut's Poorer Cities,* October 2010.
State of Connecticut Office of Policy and Management, Municipal Fiscal Indicators, 2012

City Summary Facts
At-Risk Demographics

Analysis:

•Economic and population demographics are driving demand for public services in New Haven to unsustainable costs.
•At the same time, the City is extremely vulnerable and the second most at-risk in the entire state to economic and social crises.

CRIME		
2009 prisoner drop-offs	1,200	9.3% of State total
Crime rate (per 100,000 residents)	8,161	Highest in State
Homicides (2011)	34	
PUBLIC HEALTH		
Infant mortality rate (per 1,000 births)	15.6	Highest in State
Sheltered homeless	517 households	19% of entire state
TANF Recipients as a % of 2011 population	3.25%	4th highest in state – statewide avg. 1.05%
FINANCIAL		
Unemployment rate (April 2013)	11.3%	4th highest in State – State average 7.8%
Per capita income	$22,814	7th lowest in State – State average $37,627

Sources: Connecticut Conference of Municipalities, *A Tale of Disproportionate Burden: The Special Needs of Connecticut's Poorer Cities,* October 2010.
State of Connecticut Office of Policy and Management, Municipal Fiscal Indicators, 2012
Ct. Coalition to end Homelessness – January,2013

City Summary: General Fund FY 11-12 Actuals

A. FY 11-12 Expenditure Budget	$475.4	
FY 11-12 Actual expenses	$481.6	
Over Budget		($6.2)
B. FY 11-12 Revenue Budget	$475.4	
FY 11-12 Actual revenue	$472.5	
Under Budget		($1.8)
C. FY 11-12 Budget Deficit		($8.0)

City Summary: FY 12-13 Projected

A. FY 12-13 Expenditure Budget	$486.4	
FY 12-13 Projected Expenses	$486.4	
Under Budget		
		$(0)
B. FY 12-13 Revenue Budget	$486.4	
FY 12-13 Projected revenue	$482.6	
Under Budget		
		($3.8)
C. FY 12-13 Projected Deficit		($3.8)

City Summary Facts

Undesignated Fund Balance FY 11 – FY13 (PROJECTED)

Analysis:

•Undesignated fund balance is the reserve fund for municipal corporations.

•Bond rating agencies generally recommend an undesignated fund balance at 5% to 10% of a municipality's operating budget. 5% would be $24.3m for the City of New Haven.

Unassigned fund balance at June 30, 2009	$16m
Unassigned fund balance at June 30, 2011 McGladrey & Pullen Audit Report	$9.8m
Unassigned fund balance at June 30, 2012 McGladrey & Pullen Audit Report - represents 1.98% of FY13 budget – Lowest since FY 94-95	$3.8m
Projected Unassigned fund balance at June 30, 2013	($0)

City Summary:
Rating Agency Review

The three major rating agencies, namely, Standard & Poor's, Moody's and Fitch annually review the City's credit worthiness and issue a bond rating along with a summary of the rationale.

1) Fitch – Ratings Downgrade from A+ to A while retaining a Negative Outlook (4-19-13)

Key Ratings Drivers

Limited Financial Flexibility: reserves remain low driven by FY 12 deficit.

Projected FY 2013 deficit

FY 2014 budget pressures

Internal Service fund deficits

Above average debt burden

Low pension funding levels

Mixed socioeconomic indicators

2) Moody's – Ratings Downgrade from A1 to A2 while retaining a negative outlook (6-18-13)

" The downgrade reflects the city's narrowed financial position resulting from a sizeable operating deficit in Fy 12 as well as another expected deficit in FY 13….. The negative outlook reflects the possibility of further credit weakening should the City be unable to restore fiscal stability in the near term and begin to augment its narrow reserve levels. The outlook also incorporates the City's high debt burden and sizeable internal service fund deficit."

3) Standard & Poor's – Review to be conducted in July – Downgrade would result in dropping to BBB+ range -

" The outlook revision reflects our assessment of the City's structural fiscal imbalances in recent years which have led to reliance on one time revenues to balance operations, resulting in a thin reserve position that is well below targeted levels."

City Summary:
Non General Fund Balance Sheet Issues

- In addition to the General Fund, the City maintains other funds which must also be financially sound and are regularly reviewed by the rating agencies. In the FY 11-12 annual audit two funds remain in a very weak position,
  - The Self Insurance Fund which has an accumulated fund deficit of ($17.8m) and is being addressed through the Capital budget with a three year plan underway to eliminate the actual deficit.
  - The Medical Self Insurance fund is currently in a deficit of ($1,183,579) resulting from an operational deficit in FY 11-12.

Tab III

City Revenue Deterioration

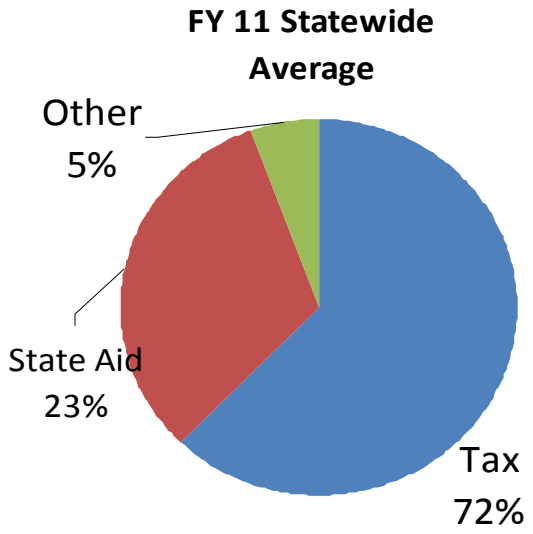
City Revenue Deterioration

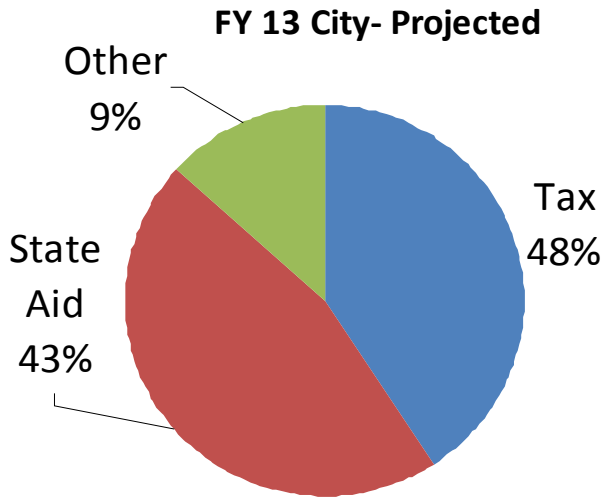
Where City Revenue Comes From

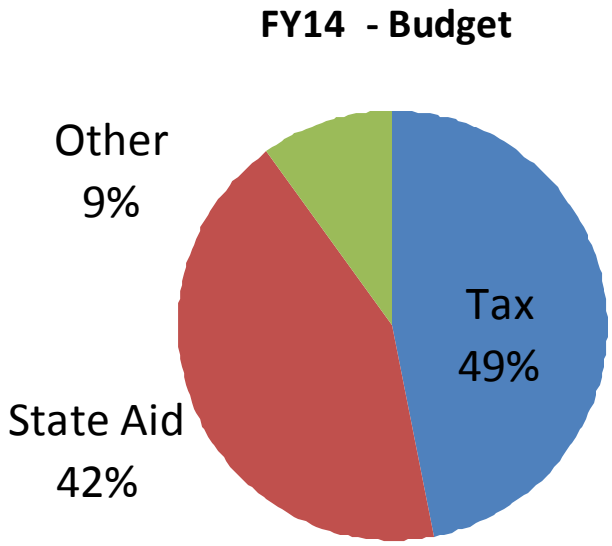
Analysis:

•State Aid continues to fall as a percentage of revenue thereby drive up property taxes on taxpayers who have the 3rd highest effective mill rate in the State already. State aid drops from 43% of the FY 13 budget to 42% while taxes rise from 48% to 49%.

•In FY 05-06 State revenue was at 50% of revenue and taxes were at 42%.





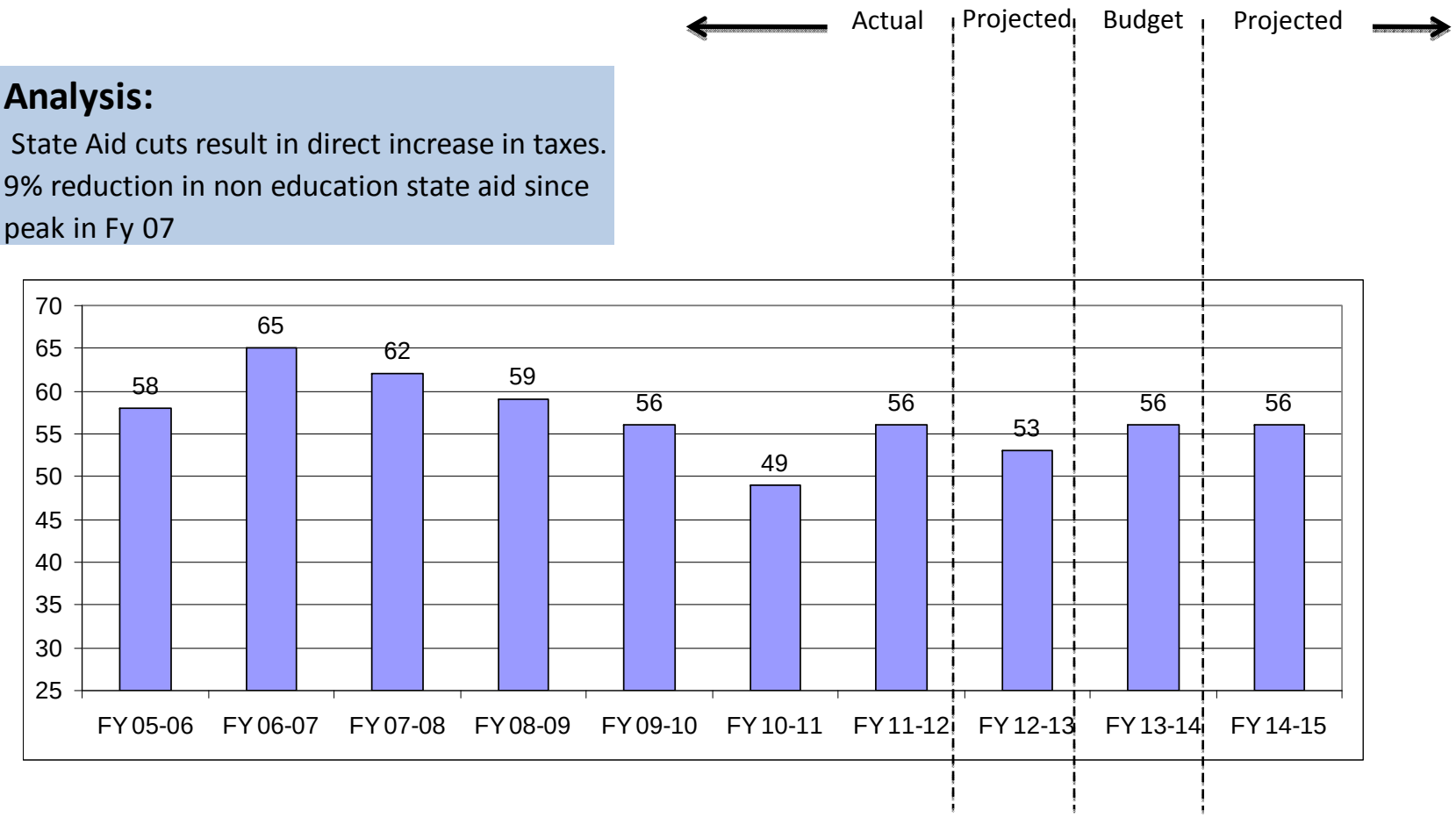


Source: State of Connecticut Office of Policy & Management, Municipal Fiscal Indicators, 2012, **FY 14 BOA approved budget**

City Revenue
State Aid – non Education

Analysis:

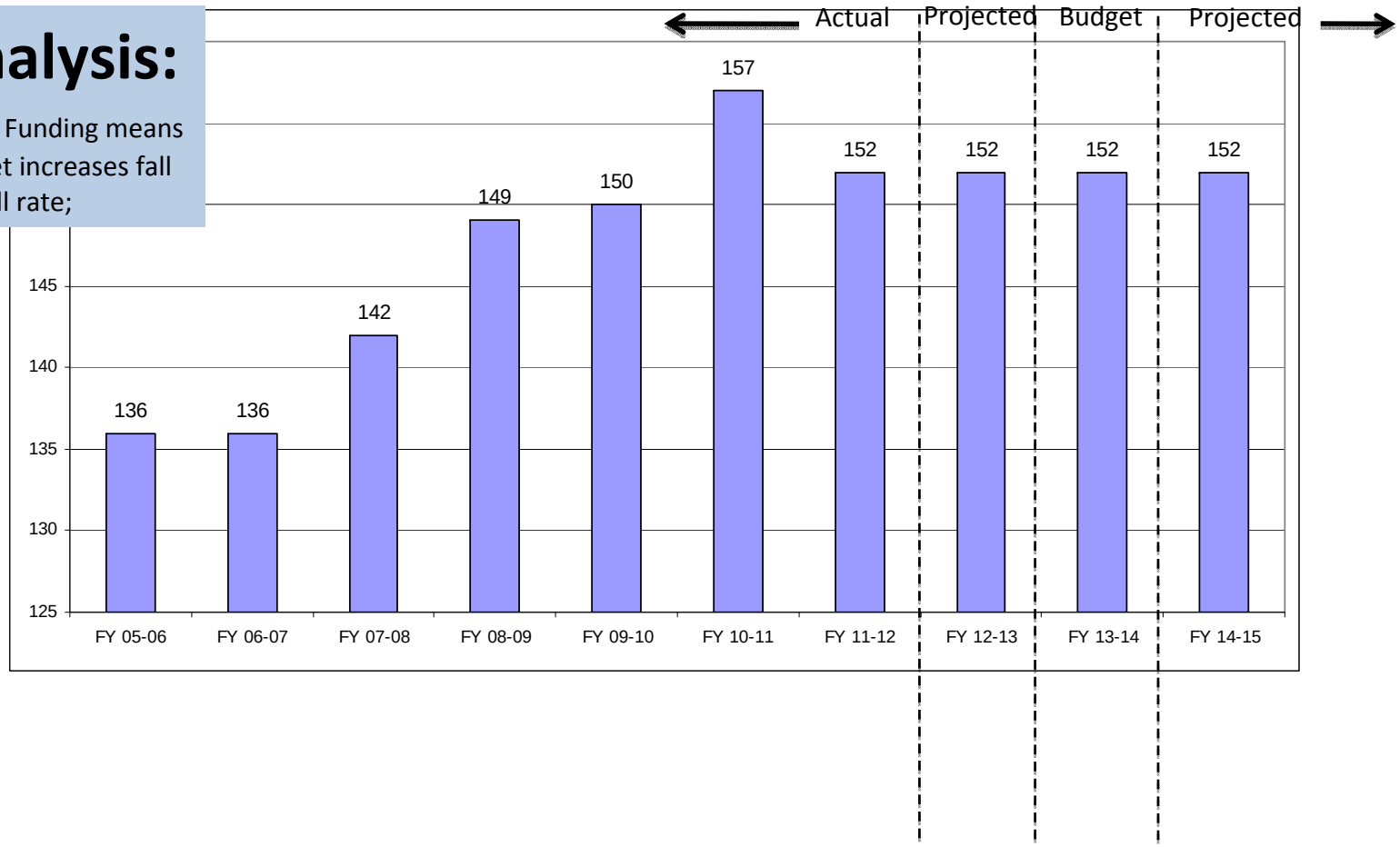
State Aid cuts result in direct increase in taxes. 9% reduction in non education state aid since peak in Fy 07



City Revenue
State Aid – Education

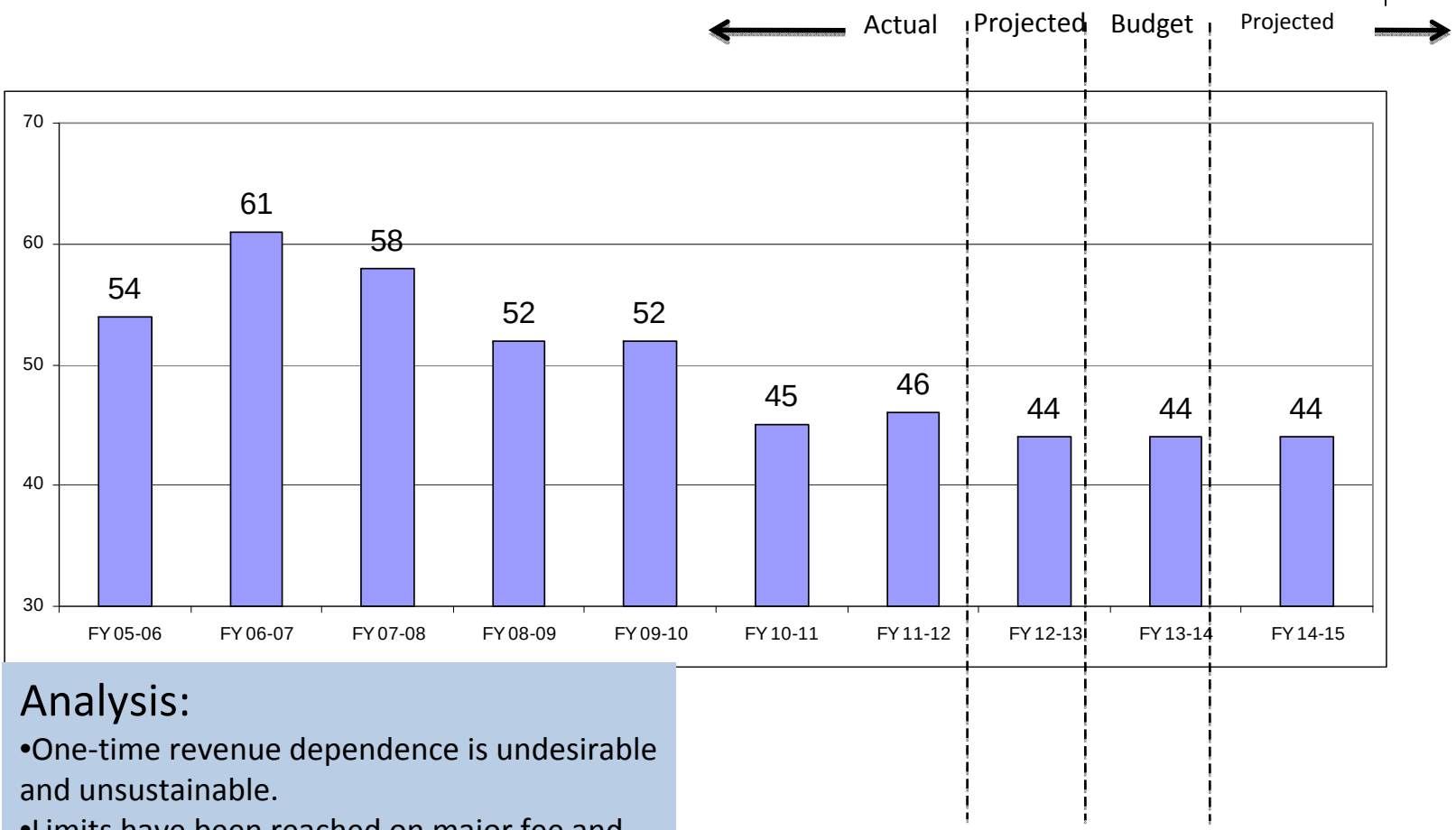
Analysis:

- Flat Funding means budget increases fall on mill rate;



City Revenue

Other Revenues (Inspections, Voluntary PILOTS, Parking Tags, One-Time Revenues)



Analysis:

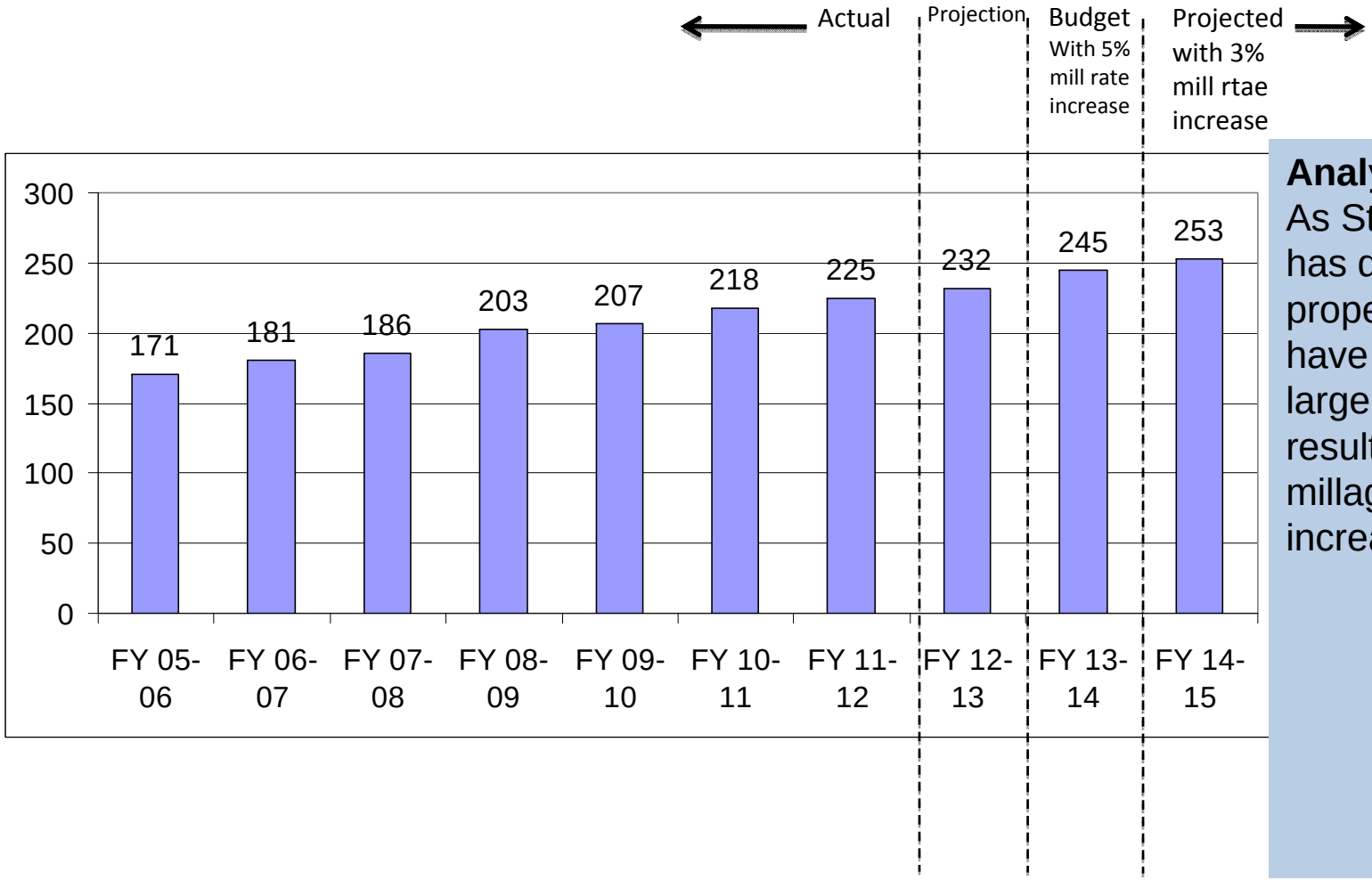
•One-time revenue dependence is undesirable and unsustainable.

•Limits have been reached on major fee and fine schedules. Building permit fees are amongst the highest in the State ($27.26).

City Revenue Deterioration
Other Revenues - Analysis

- Licenses, Permits and Other Charges
  - At $27, building inspection fee amongst highest in State.
- Fines, Forfeitures & Penalties
  - Increased parking tag enforcement to two daily shifts and Saturdays.
  - Increased rates from $1.25 to $1.50 per hour.
  - Meter collections hours expanded
- Investment Income
  - Short-term investment of idle funds.
  - Reduction from $4.4 million (FY07) to $37,183 (FY12 actual).
  - Caused by extremely low yields (.20% - .30% in 2010) and deterioration of cash position.
- One-Time Revenues
  - Sale of Martin Luther King School in FY 13. Not available going forward.
  - Wall & High Street sale to Yale University.
- Voluntary PILOTS
  - Yale and YNHH voluntary PILOTS renegotiated in 2010 to $6 million. Amongst the highest in nation.

City Revenue
Property Taxes



Analysis:
As State aid has declined, property taxes have risen largely as a result of millage increases.

City Summary Facts

Comparative Taxing Capacity

Analysis:

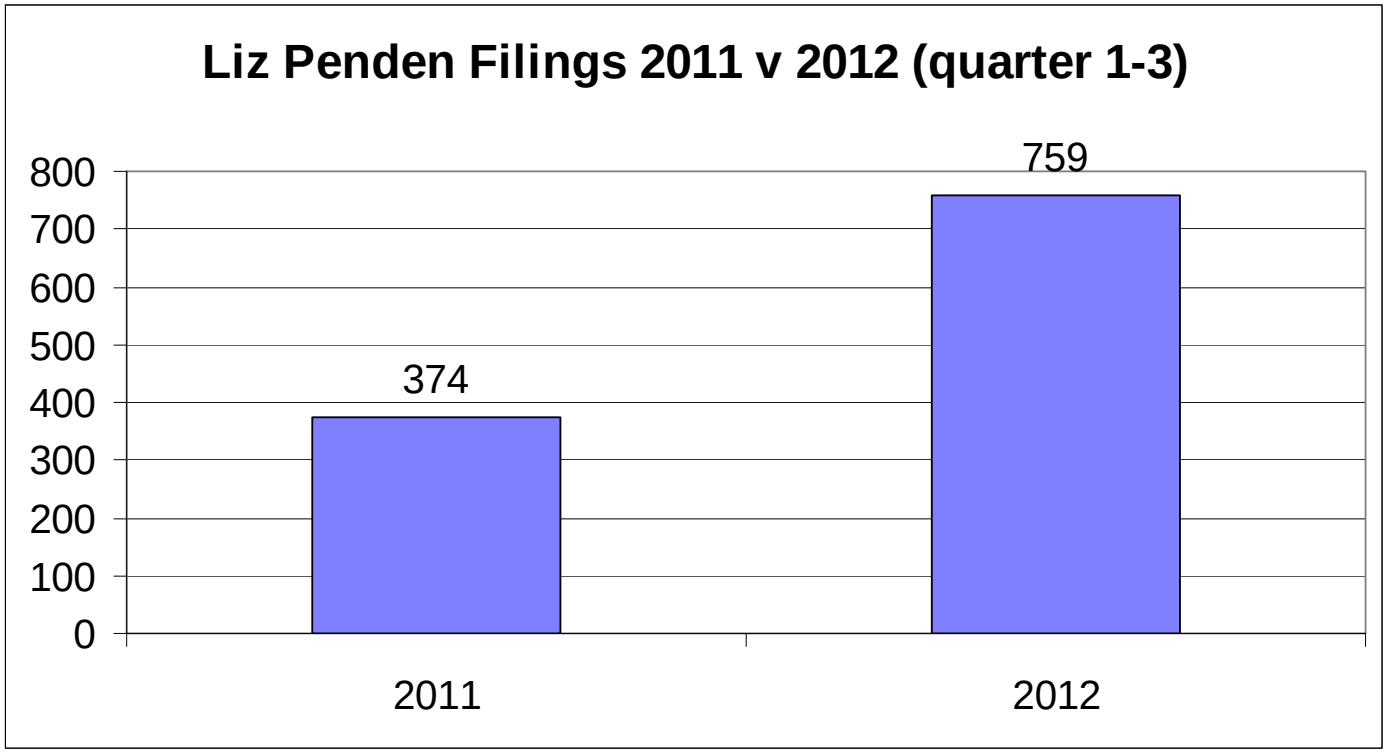
•New Haven has demonstrated a willingness to tax itself and is at a competitive disadvantage to other communities.

	Per Capita Grand List	Effective Mill Rate
Connecticut	$150,019 (avg)	16.72 (avg)
East Haven	100,152 (142nd)	20.62 (29th)
West Haven	75,725 (162nd)	20.02 (39th)
Bridgeport	67,223 (163rd)	27.97 (4th)
New Haven	59,791 (166th)	28.30 (3rd)

Source: State of Connecticut Office of Policy & Management, Municipal Fiscal Indicators, 2012.

City Revenue Deterioration

Residential 1-4 Family and Condo Liz Pendens Filings

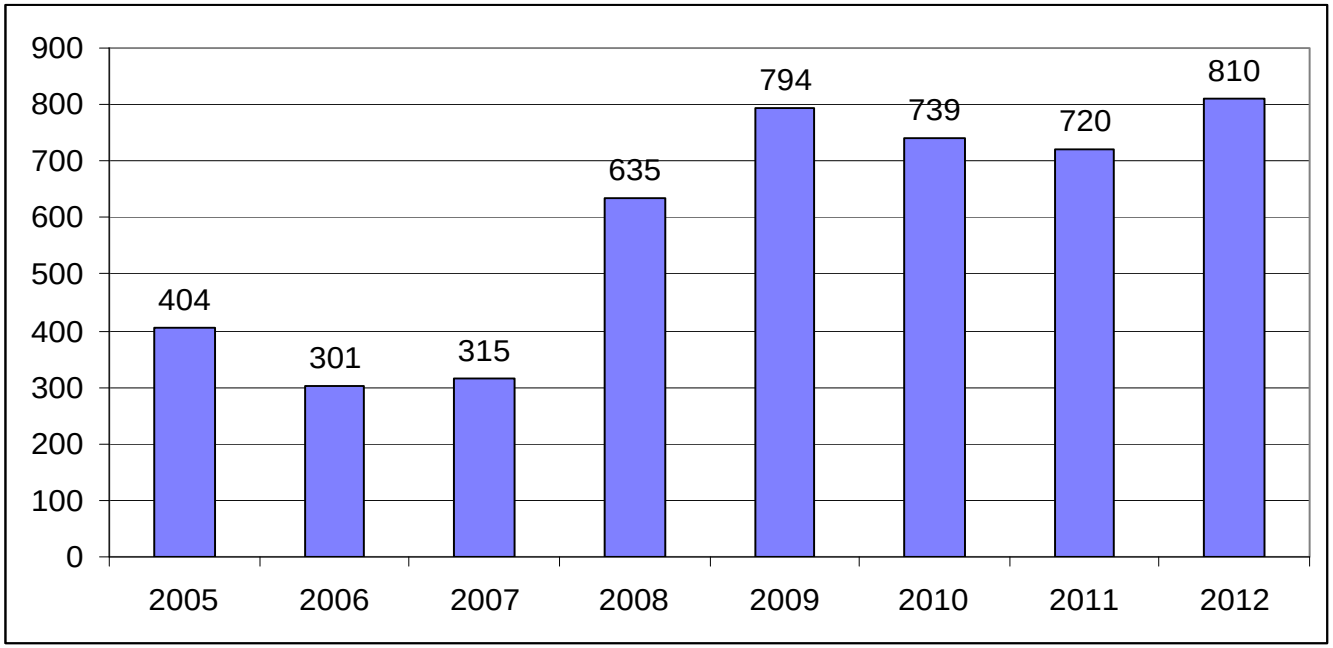


Analysis:
- Foreclosures and Lis Pendens Increasing dramatically.
- Ct 3rd highest overall percentage increase in filings in the country
- Increased taxes can only contribute to increased foreclosures.

Source: The ROOF Project, Greater New Haven Community Loan Foundation, May 2013.

City Revenue Deterioration

Vacant Properties - 2005 to 2012



Analysis

•Vacant properties require City employees and subcontractors to maintain and are at-risk for fire, vandalism and criminal activity.

Source: City of New Haven, Livable City Initiative. Annual Audit

New Haven Unemployment

- State Wide Unemployment
  - 2007 = 4.6%
  - 2010 = 9.3%
  - 2013 = 7.8%

- City Unemployment
  - 2007 = 7.3%
  - 2010 = 13.1%
  - 2013 = 11.3%

Source: CT DOL

Unemployment peaked in 2010 at the height of the fiscal crisis. New Haven remains at 11.3% which is higher than the state average during the worst days. Residents ability to pay property tax unrelated to employment status. The tax must be paid.

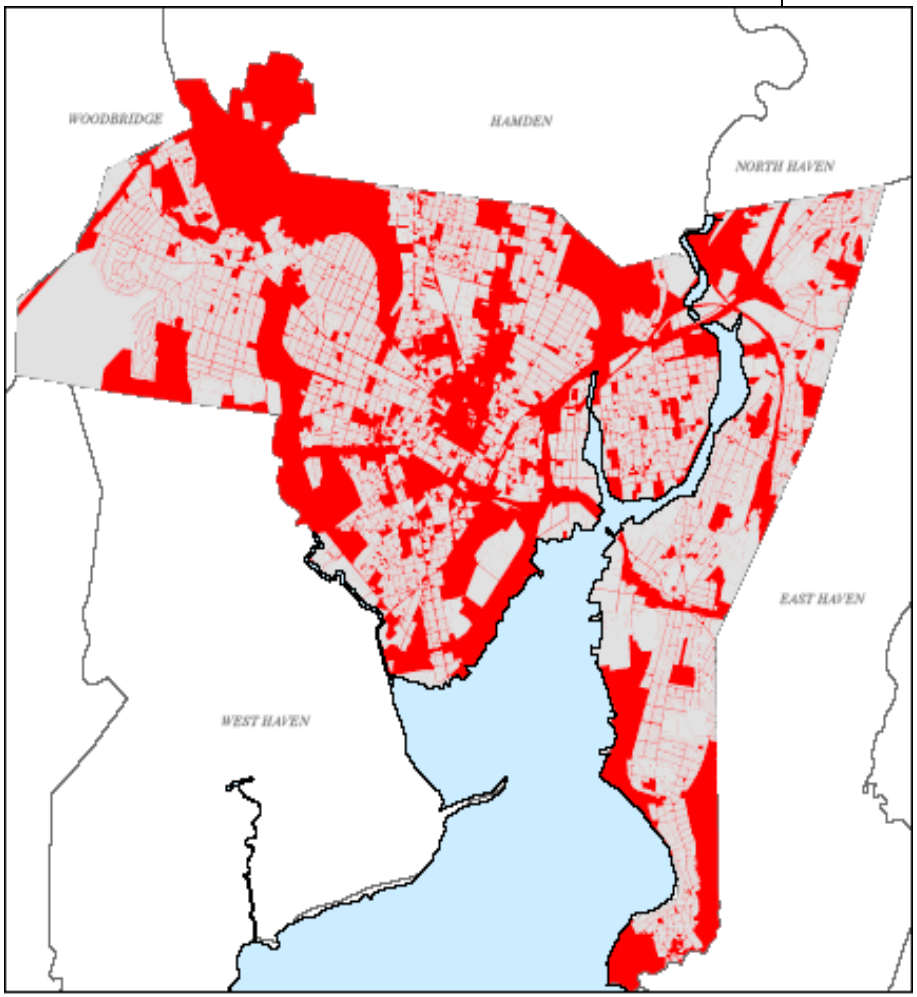
City Revenue Deterioration

2012 Grand List – Tax-Exempt Property

Analysis:

•Due to the extent of tax-exempt property, New Haven tax base has little to no ability to absorb continuing cuts in State aid and expenditure increases.

Total Real Property	**$11.8 billion**	**100%**
Taxable Property	6.1 billion	52%
Exempt Property	5.7 billion	48%



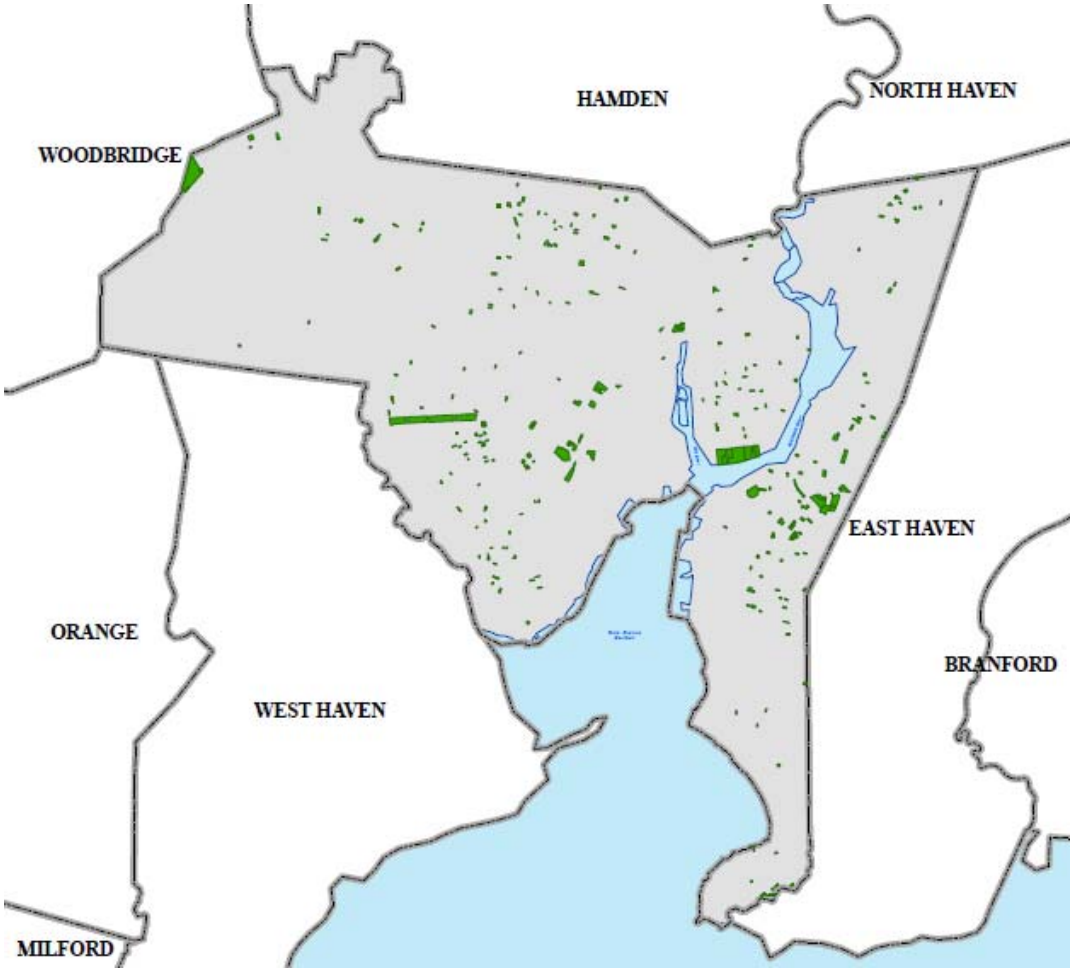
Source: City of New Haven, Assessor's Office

City Revenue Deterioration
Developable Land

Analysis:

•Only 1.4% of land in New Haven is taxable, vacant and developable (see green shading).

•Property re-use requires remediation, demolition and other financial supports, mitigating revenue generation.



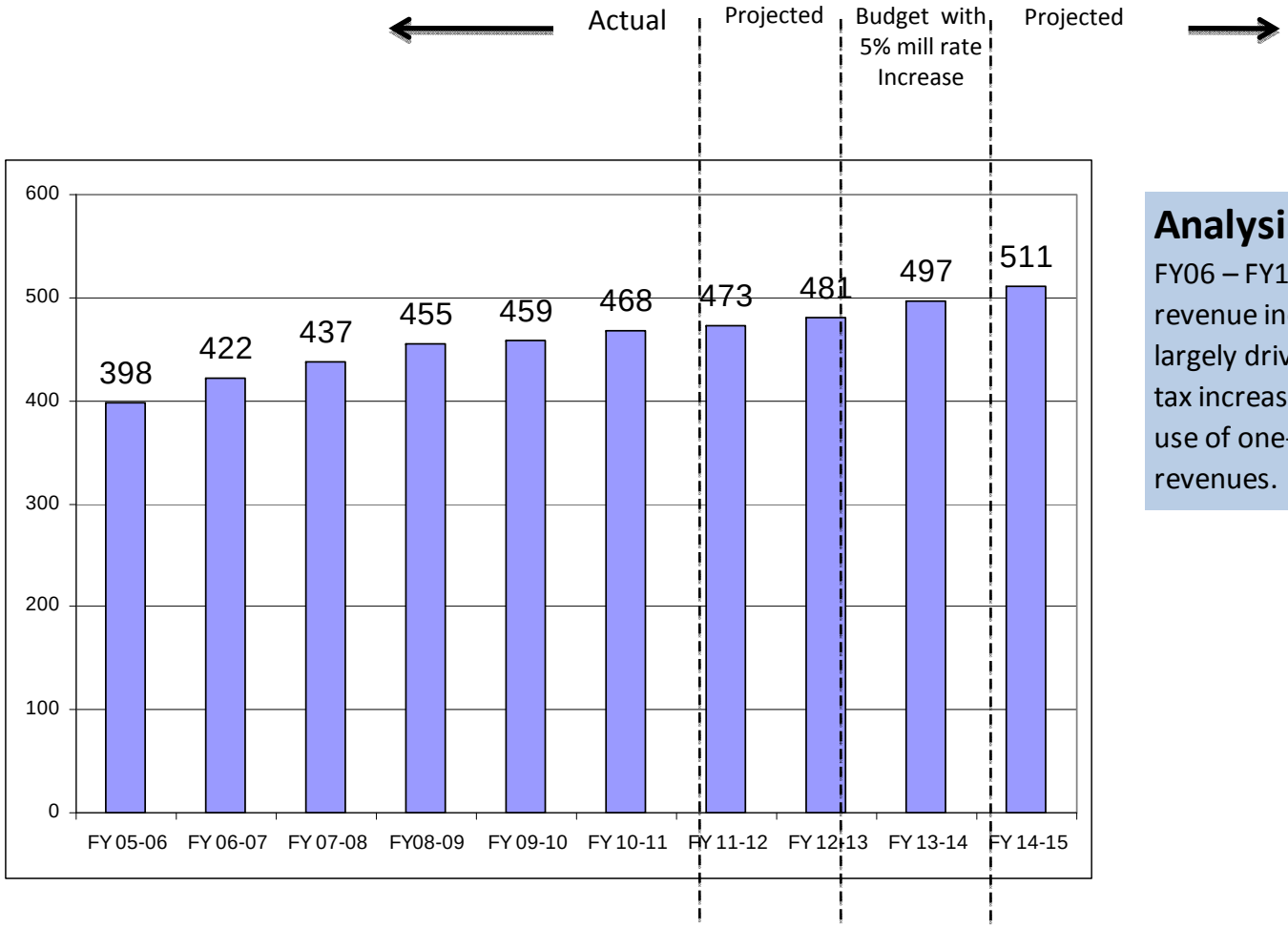
City Revenue Deterioration

Property Taxes - Analysis

- Over the last several years, the City has raised the tax rate, demonstrating a willingness to pay.
- Modest Grand List Growth cannot make up for expenditure increases and State revenue and one time revenue decreases.
- 48% of grand list is tax exempt.
- Only 1.4% of land is taxable and developable.
- Tax collection rate is 98.0% - little room for improvement. Real estate the major category is 98.4%.
- Equalized mill rate is 28.3, 3rd highest in the State.
- Pending foreclosures of residential properties have spiked in the last year. Vacant properties are trending higher and have increased by 2 ½ times since 2006.
- Unemployment rate remains well above state average at 11.3%
- Increasing taxes will collapse residential neighborhoods, thereby increasing City expenditures and diminishing City revenues.

Revenues – Total Revenues

Projected FY 06 to FY 15



Analysis:

FY06 – FY11 revenue increases largely driven by tax increases and use of one-time revenues.

City Revenue Deterioration

Total Revenues- Analysis

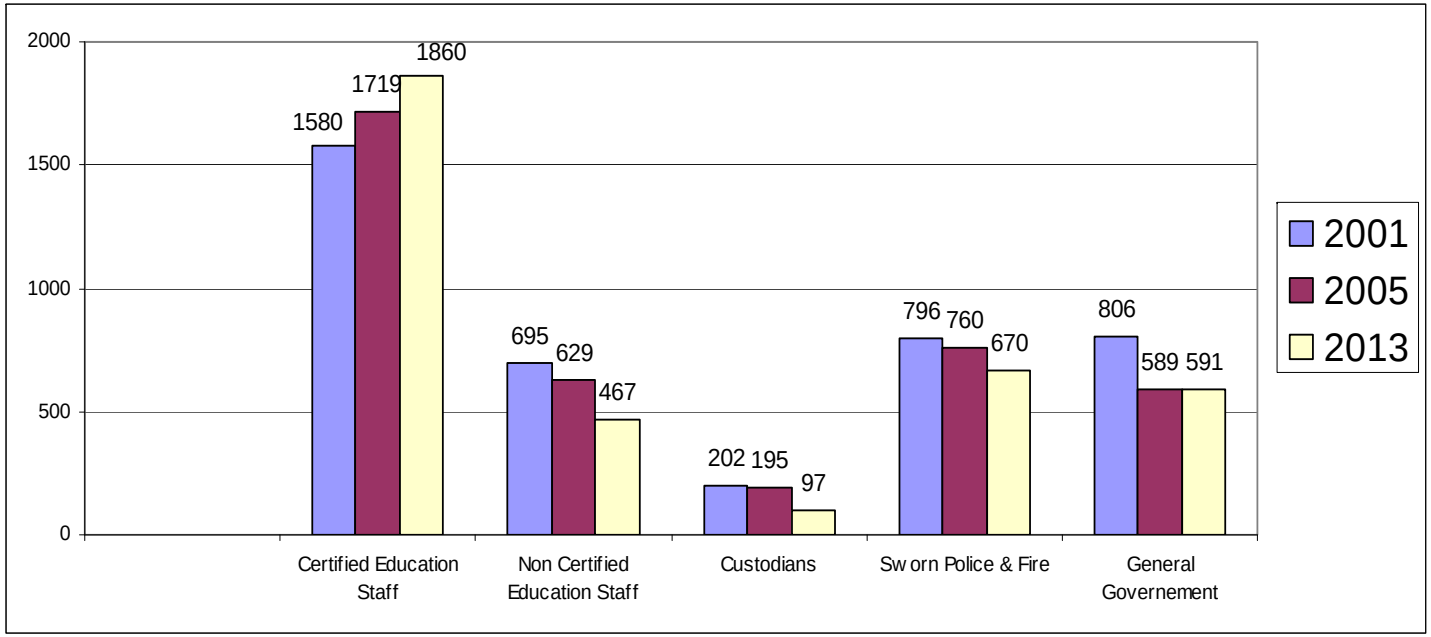
- Property taxes have reached their limit.
- State budget reductions places state aid dependent communities, like New Haven, into a crisis mode.
- Even before the current crisis, New Haven has been subject to a long-term State revenue problem that is structural and political in nature.
- Not addressed in good times. No revenue based solution exists.

Tab IV

City Expenditure Drivers

City Expenditure Drivers

General Fund Filled Position Counts – FY00 to FY13



Analysis:

•Filled positions were reduced 4.6% between 2001 and 2005; and by another 5.3% between 2005 and 2013. Total in 2001 was 4,079. Currently, it is 3,685.

Source: Management & Budget

City Summary Facts

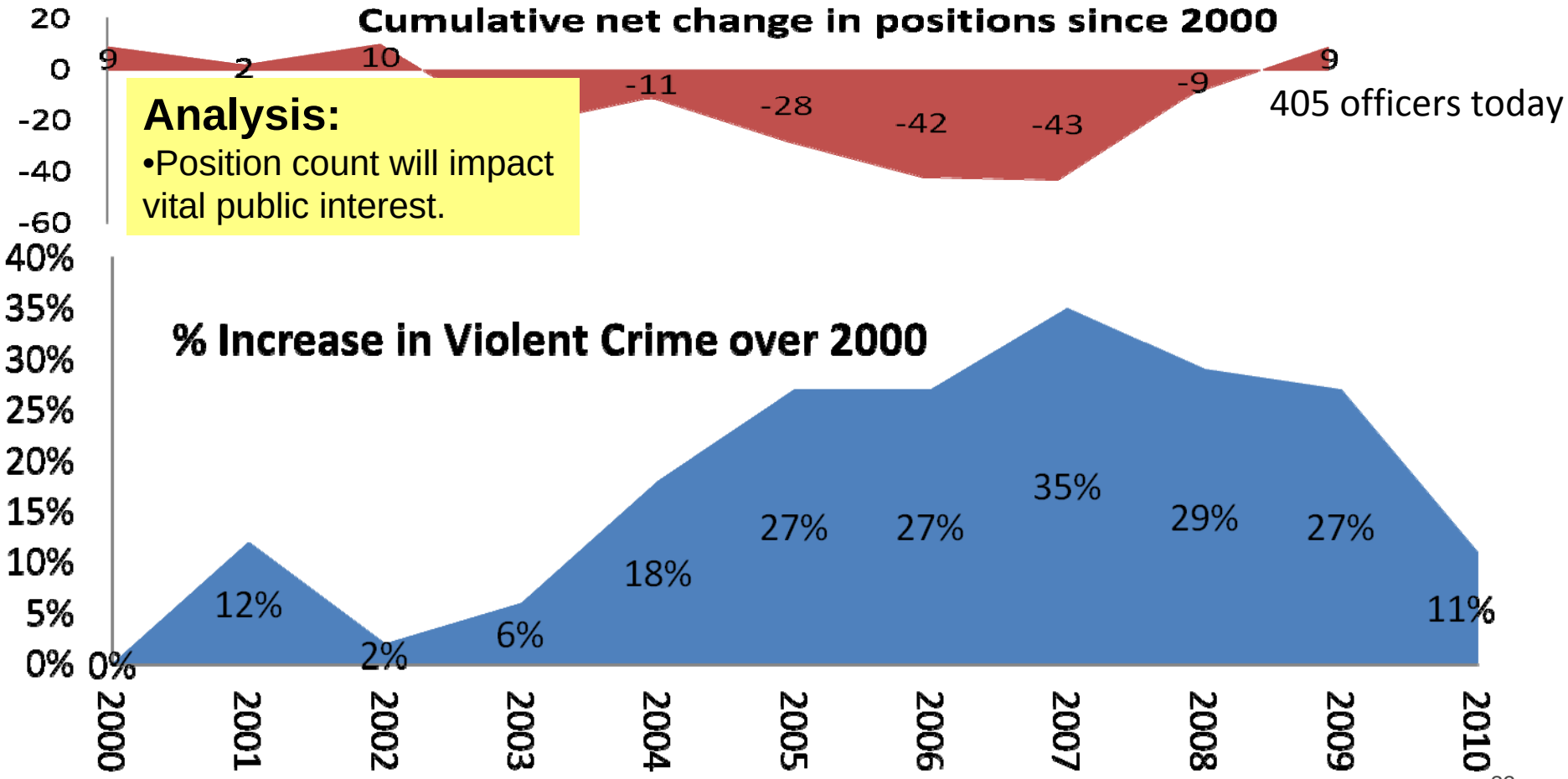
City Budgeted Positions

Summary FY 01-02 vs. FY 13-14

	Department	FY 01-02 General Fund	FY 13-14 General Fund	+/-	%
111	Legislative Services	11	10	(1)	-9%
131	Mayor's Office	16	9	(7)	-44%
132	Chief Admin. Office (Plus HR))	6	11	5	83%
133	Corporation Counsel	28	17	(11)	-39%
135	Office of Labor Relations	4	-	(4)	-100%
136	Human Resources	10	-	(10)	-100%
137	Finance (Plus Tech, Purchasing & Employee Benefits, Labor Relations)	96	63	(33)	-34%
138	Office of Technology	-	-	-	
139	Assessor's Office	12	12	-	0%
142	Bureau of Purchases	-	-	-	
152	Public Library	74	38	(36)	-49%
160	Parks & Recreation	104	56	(48)	-46%
161	City/Town Clerk	7	5	(2)	-29%
162	Registrar of Voters	6	6	-	0%
200	Public Safety Commun.	0	57	57	
201	Police Service	617	553	(64)	-10%
202	Fire Service	415	376	(39)	-9%
301	Public Health	93	57	(36)	-39%
302	Fair Rent Commission	2	1	(1)	-50%
303	Elderly Services	16	6	(10)	-63%
304	Youth Services	6	1	(5)	-83%
305	Disability Services	3	1	(2)	-67%
308	Community Srv Admin	17	4	(13)	-76%
501	Public Works	162	116	(46)	-28%
502	Engineering	9	8	(1)	-11%
700	Small Business Initiative	3	-	(3)	-100%
702	City Plan	11	6	(5)	-45%
704	Transportation/'T & P	35	32	(3)	-9%
705	Comm. on Equal Opport.	6	2	(4)	-67%
721	OBIE	20	14	(6)	-30%
724	Economic Development	10	11	1	10%
747	Livable City Initiative	22	14	(8)	-36%
	Ciy Total	**1,821**	**1,486**	**(335)**	**-18%**

City Expenditure Drivers

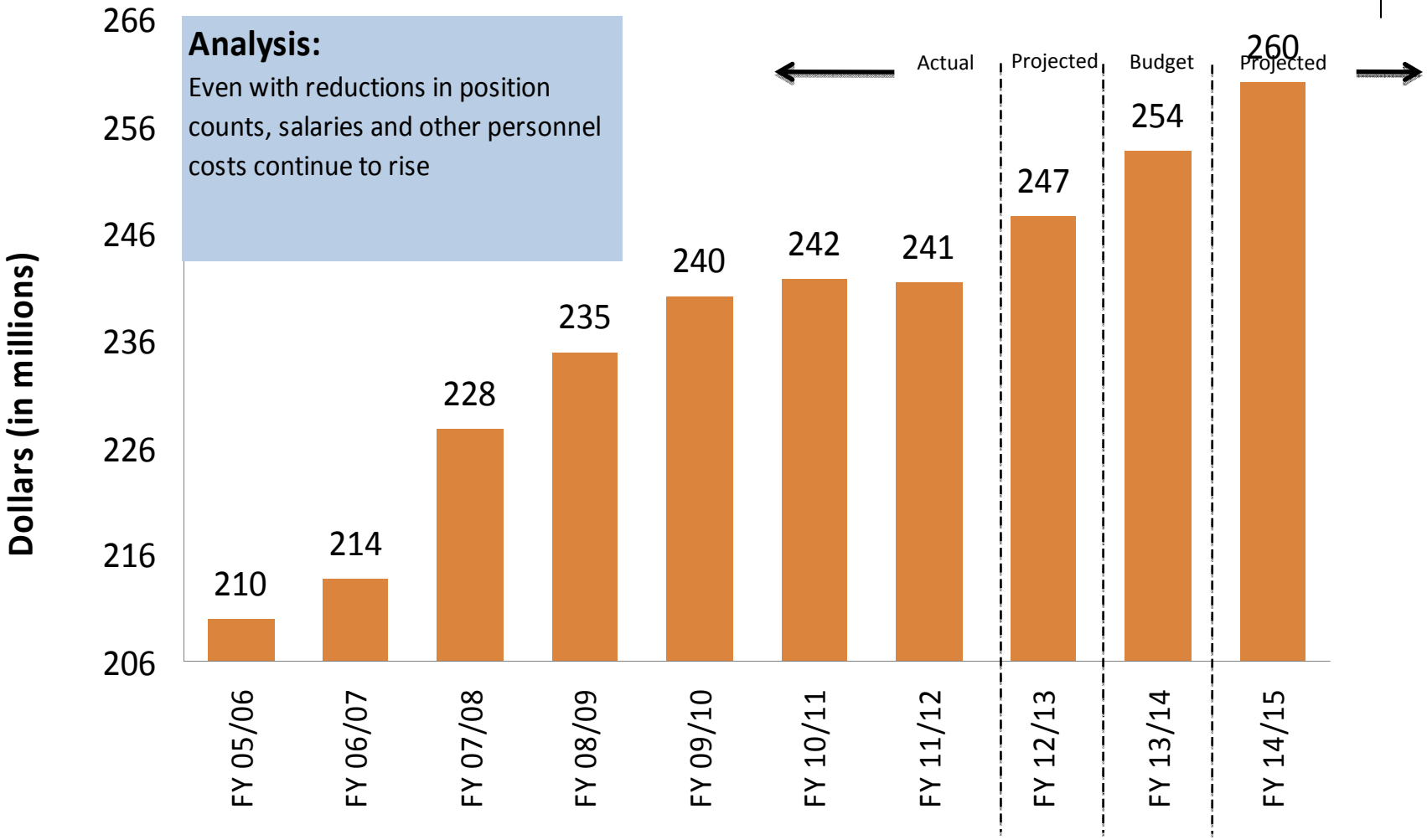
Change in Sworn Police Positions and Violent Crime



Analysis:

- Position count will impact vital public interest.

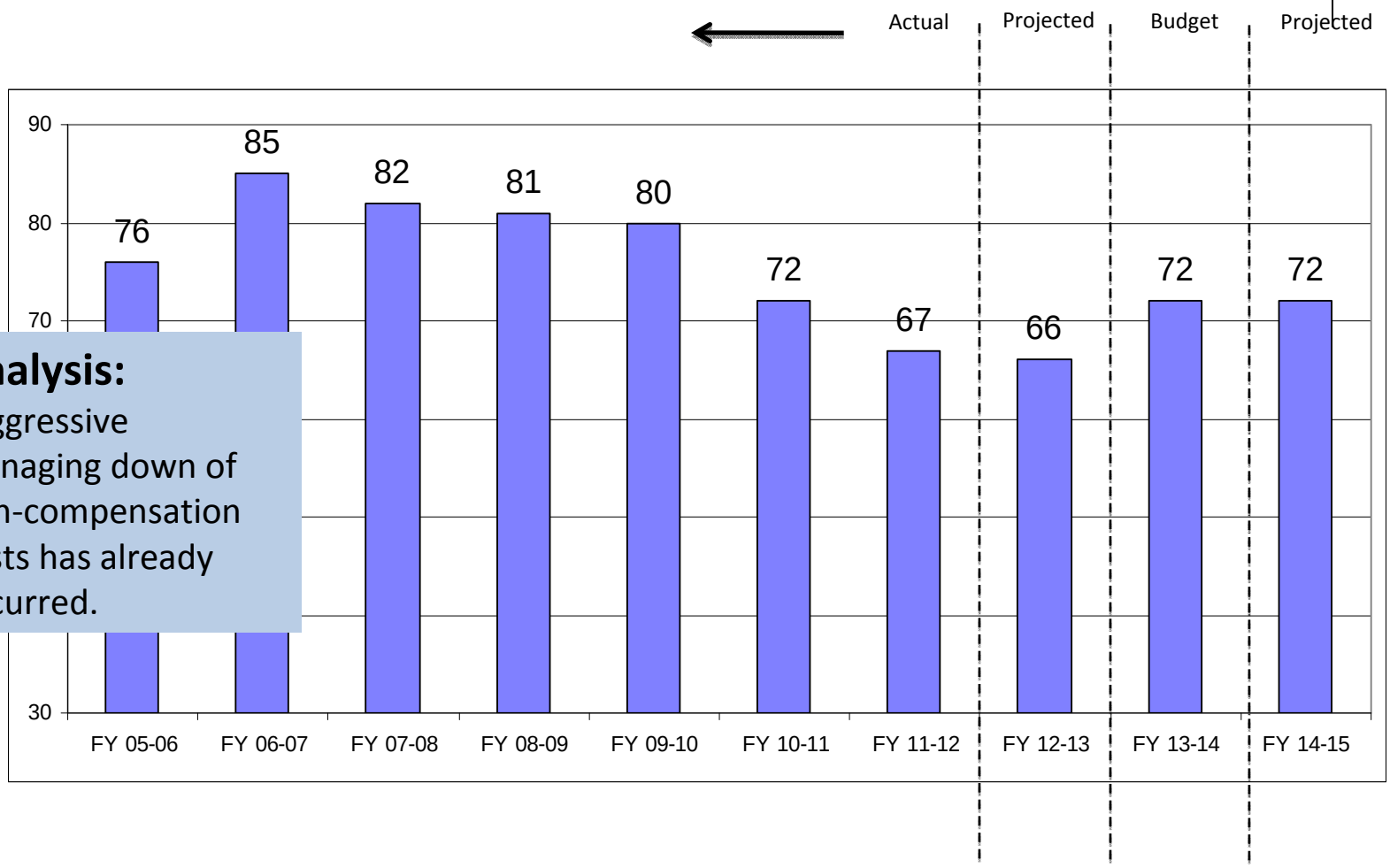
City Expenditures
Salaries & Overtime



City Expenditure Drivers
Salaries & Overtime - Analysis

- To control costs, the following services have already been eliminated over the years
  - Homeless funding reduced
  - 3 senior centers closed
  - Periodic reduction of Library hours
  - Police mounted unit eliminated
  - Reduction of staff in most city departments
  - Department of Small Business eliminated
  - Cut Mayor's Citizen Advocates
- General Fund filled positions in the City were cut by 4.6% between 2001 and 2005. Filled positions were cut by another 5.3% between 2005 and 2013
- Total City budgeted positions have been reduced by 18% since FY 01-02 – Among others Mayor's Office cut by 44%, Corp Counsel by 39%, Library by 49%, Parks by 46%, Health by 39%, Elderly Service by 63%, Public Works by 28% et al
- The City undertook four rounds of lay-offs in 2003, 2008, 2009 and 2011.
- Baseline City services – particularly those essential to the public interest – are directly affected by staffing levels. Significant reductions in staffing levels will dramatically compromise the public interest.

City Expenditures
All Other Expenditures



Analysis:

•Aggressive managing down of non-compensation costs has already occurred.

City Expenditure Drivers
Other Expenditures - Analysis

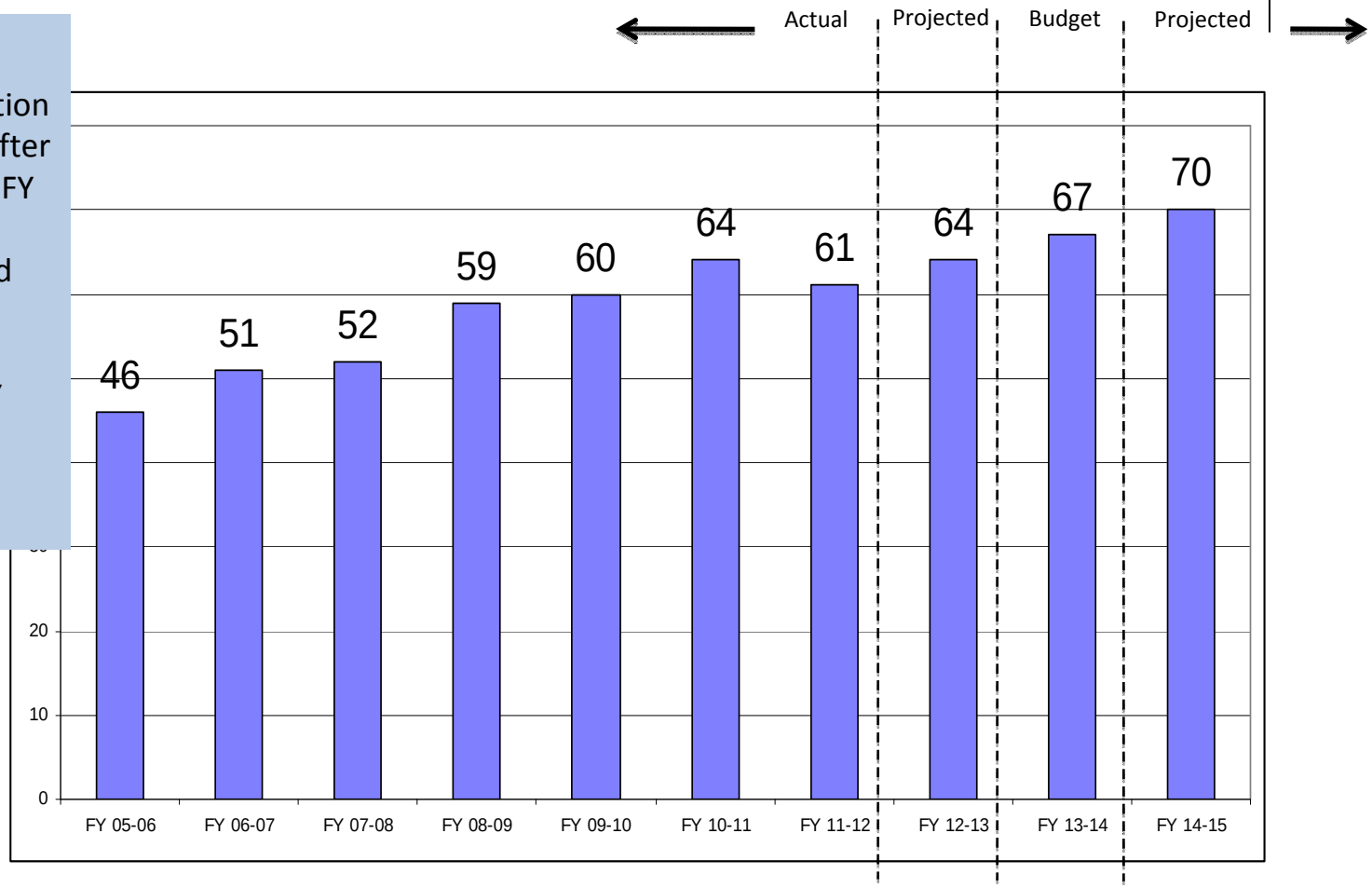
- Major items in this category, FY13 budgeted (millions):
- Self-Insurance Fund deficit is $16 million.
- Cost reduction – FY08 to FY13:
  - Utility costs – decreased $500k or 3% for City and BOE. Long terms costs have been stabilized through the bulk purchase of natural gas and electric.
  - Homeless services – decreased $402,000 or 26%.
  - Refuse removal – decreased $1.2M or 28%
  - City Library books – decreased $158,000 or 33%.

Category	
Utilities	$17
School transportation	10
Special education	12
BOE plant operations	7
Self-insurance costs	4
Workers Comp	8
Other	8
Total other expenditures	**$66**

City Expenditures
Debt Service

Analysis:

•School Construction program halted after FY 12-13 budget. FY 12-13 Five year Capital Plan called for City share of Capital Budget of $49m in FY 14, FY 13-14 budget reduced this to $33m.



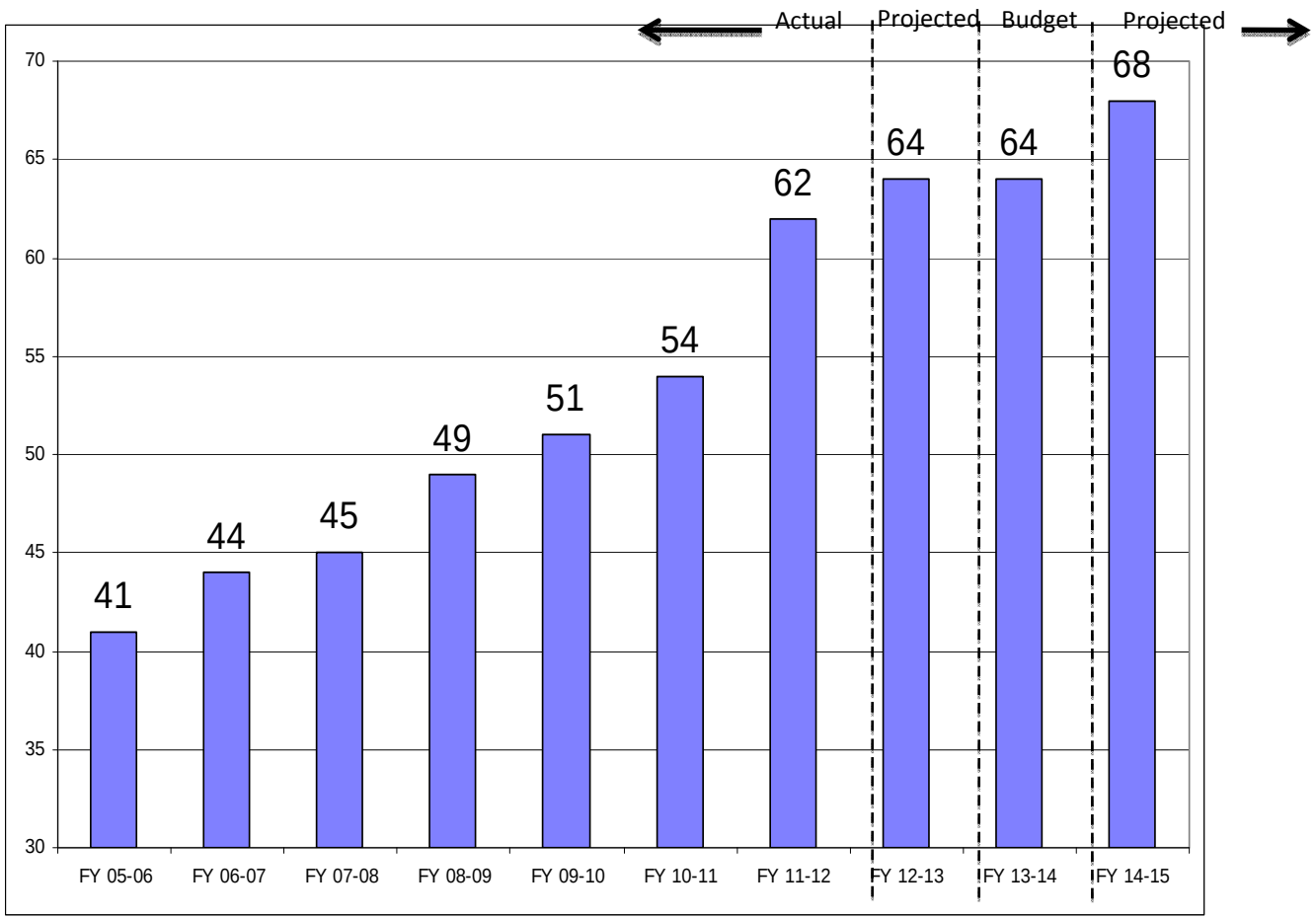
City Expenditure Drivers
Debt Service - Analysis

- Debt service is 13.1% of the FY14 budget, down from 13.8% in FY10.
- Debt per capita is $3,876 in FY11, down from $3,900 on FY04. State wide ranking of debt per capita is 11th (State OPM)
- Aggressive retirement of debt.
- Closing out school construction in FY 12-13.
- Closed multiple schools: Dwight, Mauro, Cross Scholars, Quinnipiac, Woodward, Strong.

City Expenditures
Health Benefits

Analysis:

•Despite containment initiatives, such as: tiered premium cost sharing and issuing a request for proposals to evaluate different carriers, health benefits costs continue to grow aggressively.



City Expenditure Drivers
Health Benefits - Analysis

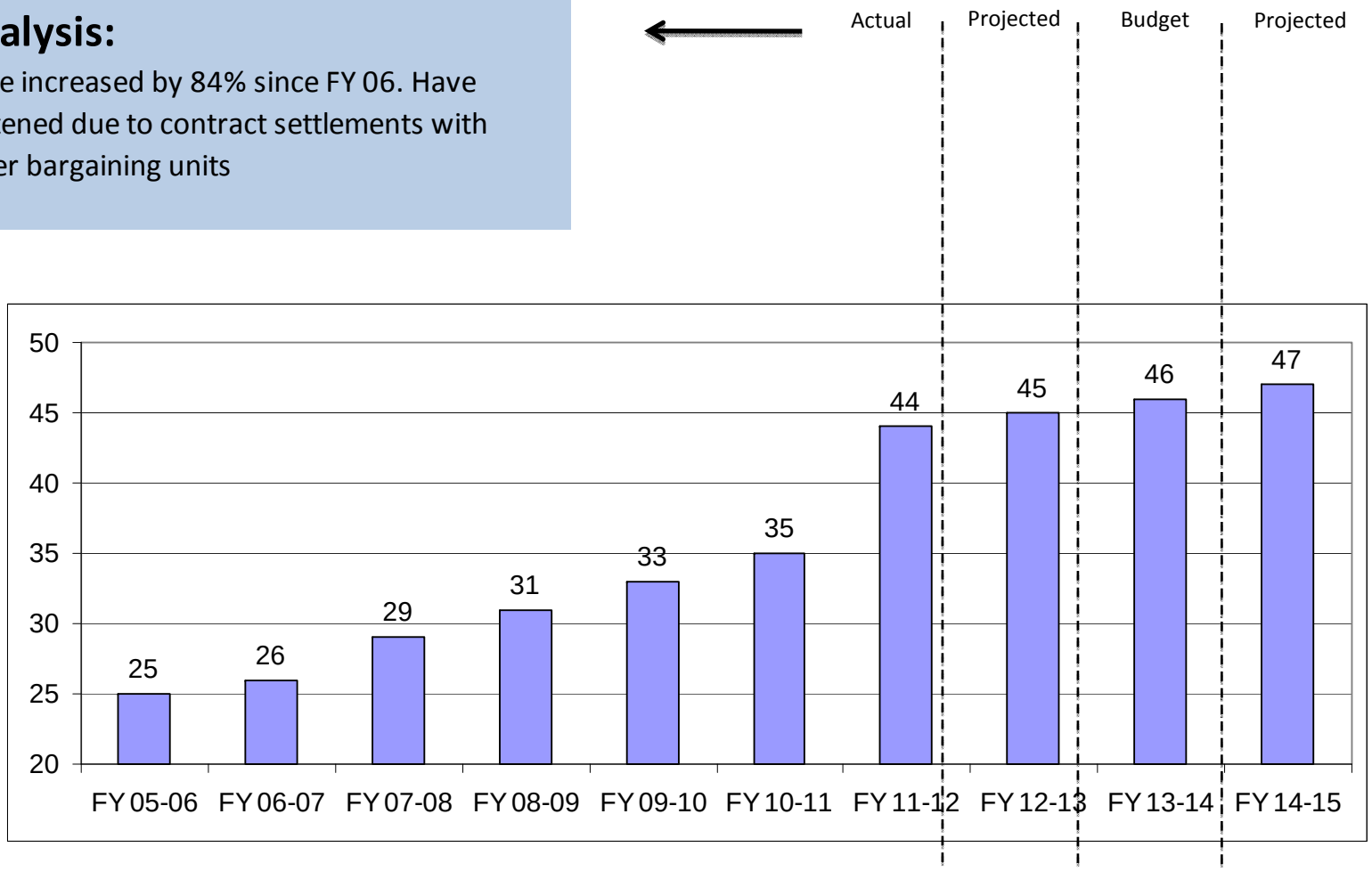
- Cost containment initiatives have been implemented:
  - Tiered premium cost sharing
  - Contemporary plan offerings
  - Progressive pharmacy program
  - Mandatory employee re-enrollment
  - Linked retiree health benefits to active employee benefits
  - City-wide wellness campaign
  - Re-bid the administration of health benefits
- Despite these cost containment initiatives, costs have risen by $19 million or 42% over the last five years and are likely to grow in the years to come.
- The trend of the OPEB liability for retiree medical benefits is cited below and is an unfunded liability which is an enormous problem (source: 2012 Annual audit schedule 5)

	Unfunded Accrued Liability	Actuarial Value of Assets in Fund
7-1-07	$430m	0
7-1-09	$414m	0
7-1-11	$444m	$227,000

- The City's current healthcare plans are beyond the City's ability to pay

City Expenditures
Pensions

Analysis:
Have increased by 84% since FY 06. Have flattened due to contract settlements with other bargaining units



Note: Amounts include annual required contributions to CERF and P&F pension funds, and FICA taxes paid on non-covered employees.

City Expenditure Drivers

Pensions - Analysis

	Police & Fire	CERF	Total
Annual Required Contribution (ARC)			
FY11	$18,691,926	$11,941,035	$30,632,961
FY12	23,331,000	16,259,000	39,590,000
FY13	24,258,000	16,909,000	41,167,000
FY 14	24,358,000	17,020,000	41,378,000
Fund Value			
2009	$301,004,200	$208,351,800	$509,356,000
2010	297,398,600	201,039,400	498,438,000
2011	290,172,279	177,317,347	467,489,626
2012	290,015,000	180,206,600	470,221,600
Funding Ratio			
2008	58.70%	60.40%	
2009	55.60%	56.30%	
2010	52.09%	46.51%	
2011	49.9%	45.7%	

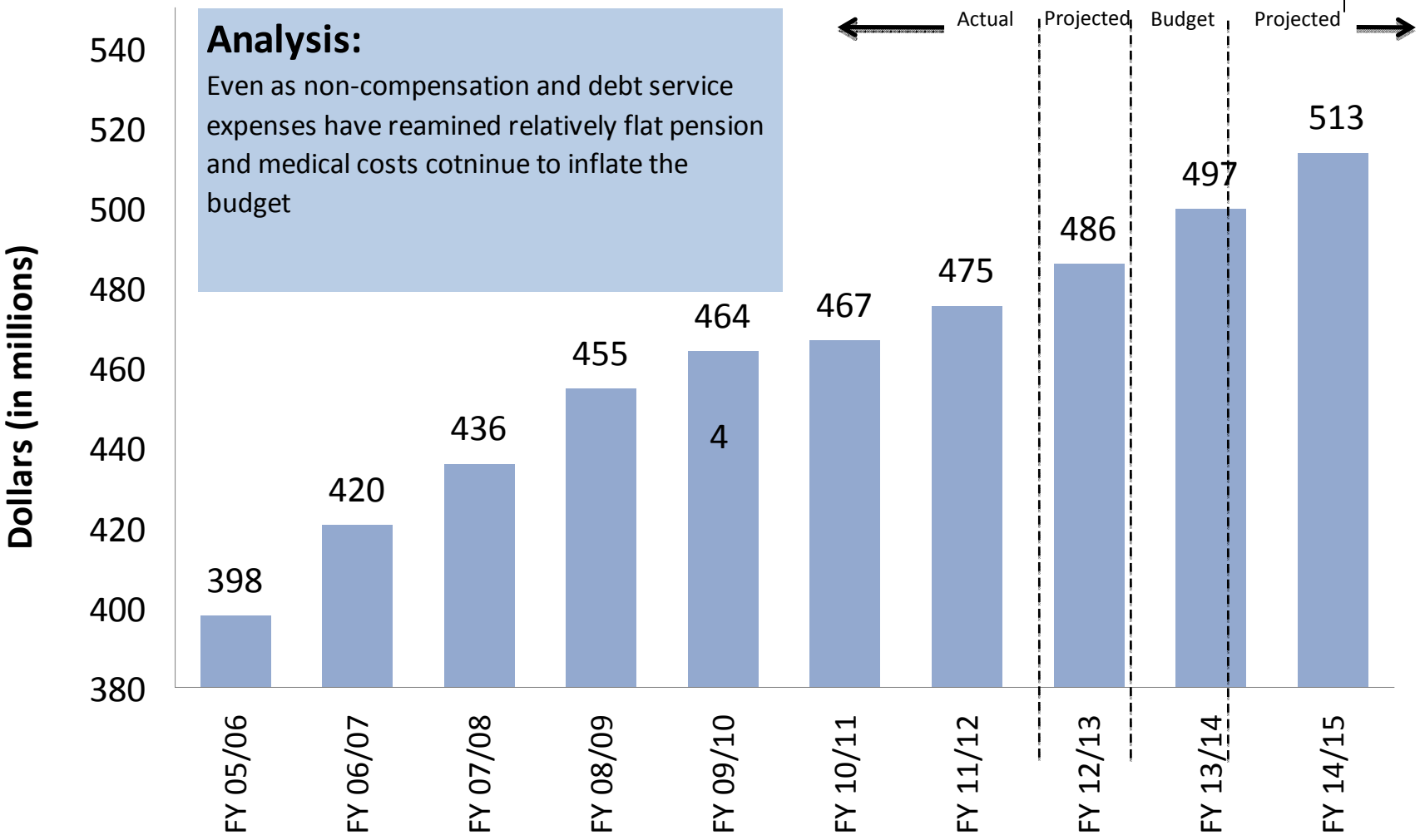
Sources: Annual City Audit- schedule 3 &4

City Expenditure Drivers
Pensions - Analysis

- Since 1994, the City has funded the annual required contribution (ARC).
- The City's current pension plans are not financially sustainable.
- Unfunded liability continues to worsen as funding ratio drops.

City Expenditures

Total Expenditures



City Expenditure Drivers

Total Expenditures - Analysis

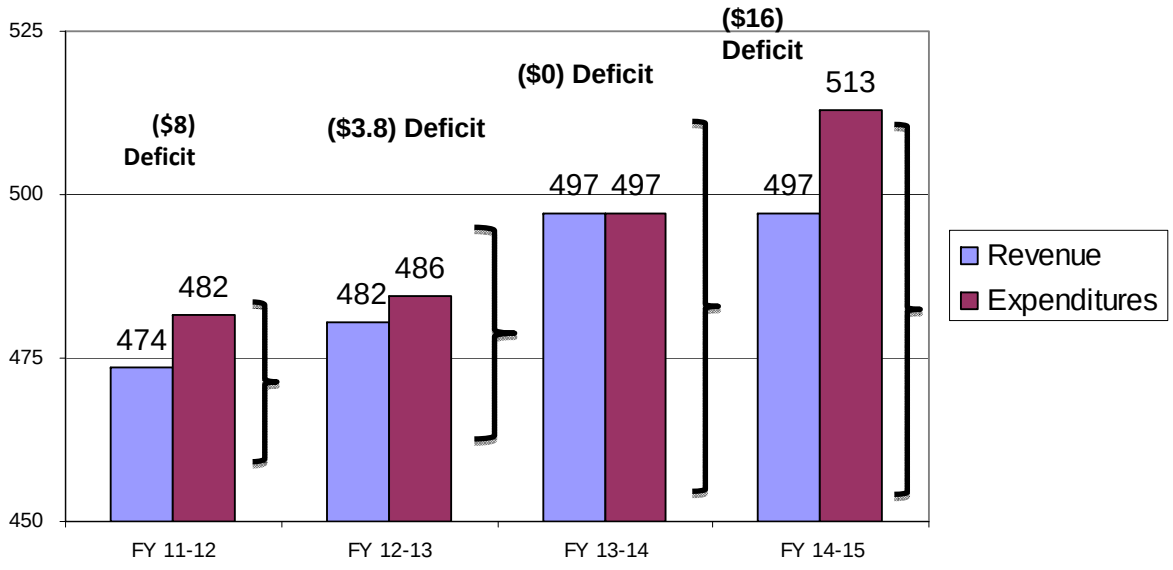
- The City's cost structure is unsustainable.
- Staffing levels have already been dramatically reduced.
- Health care and pensions now make up 22% of the budget. In FY 05-06 they were 15%.
- Healthcare and pension plan represent the only major opportunities to re-set the expenditure patterns while serving core public interest services.

Tab V

City Public Interest & Ability-to-Pay

City Public Interest & Ability-to-Pay

Revenue/Expenditure Gap – FY 11-12, FY12-13, FY 13-14 & FY 14-15



Analysis:

•From FY 11-12 (actual) to FY 14-15 projected years the budget gap totals $27 million.

City Public Interest & Ability-to-Pay

Revenue/Expenditure Gap

1. FY 2012 General Fund Budget resulted in a deficit of ($8m)
2. Unassigned Fund Balance Decreased to $3.8m at June 30, 2012. Fund balance lowest since FY 95.
3. FY 2013 projected : Projected deficit of ($3.8m) will deplete unassigned fund balance.
4. FY 14 Budget – Mill Rate increase of 5% or 1.84 mills to balance budget – mill rate to 40.8 – Tax Increase on $150,000 house = $300 or 5%
5. FY 15 Budget – Flat revenue cannot offset projected costs in normal city activities such as medical, workers comp, salary increases, educations etc. Must begin to address long term financial drivers. Pension, medical, retiree costs and debt.

City Public Interest & Ability-to-Pay

Revenue/Expenditure Gap

6. Employee Health Care and Pension costs have increased from 12% to 22% of the City budget.

7. Tax Burden is the third highest on the State.

8. Even with modest grand list growth, deficits persist and deterioration of financial position accelerates.

Revenue/Expenditure Gap Detailed Analysis FY10-FY15

Revenues Growth	54 million
- Property taxes	63 million
- Education aid	3 million
- Non education aid	-10 million
- Other Revenue	- 8 million
Expenses	63 million
- Salaries and overtime	20 million
- Health insurance	17 million
- Pension	13 million
- Debt Service	10 million
- Other	- 8 million
Difference (Fund Balance/Asset Sale)	- 9 million