



Luke A Bronin
Mayor

November 1, 2017

Honorable Thomas J. Clarke, II, Council President, and
Members of the Court of Common Council
City of Hartford
550 Main Street
Hartford, CT 06103

RE: Fiscal Year 2017 (FY2017) Fourth Quarter Financial Report

Dear Council President Clarke:

In accordance with Chapter V, Section 2(j) of the Hartford City Charter, I am hereby submitting to you the Report of the financial transactions of Hartford City Government during the Fiscal Year beginning July 1, 2016 and ending June 30, 2017.

This report is based on the City's actual unaudited financial performance as compared to the FY2017 Adopted Budget, as amended. It is important to highlight that these numbers are unaudited as we are preparing for our annual external audit, which will result in our Comprehensive Annual Financial Report (CAFR). The CAFR is prepared by the Finance Department in accordance with Generally Accepted Accounting Principles (GAAP) as they relate to governmental agencies in addition to financial standards promulgated by the Governmental Accounting Standards Board (GASB). The Adopted General Fund Budget should be used in conjunction with the CAFR to compare the City's total financial position versus the plan (i.e., the Budget). The Budget is the City's policy document for the fiscal year and the CAFR reflects the City's actual financial performance for the fiscal year.

When comparing the City's financial performance to the Budget, please keep in mind that Council amended the FY2017 Adopted Budget eight times as summarized in the attached Report. The Report reflects revenues of \$544.1 million (99.9% of the Adopted Budget) and expenses of \$553.1 million (99.0% of the Adopted Budget). The City's financial performance for FY2017 in conjunction with the use of fund balance appropriated in the FY2017 Adopted Budget and the Tax Anticipation Notes (TAN) proceeds will fund this negative variance of \$9.3 million. The reduction in utilization of the TAN proceeds is reflective of the Administration's continued focus on responsibility reducing expenditures and a concerted effort to maximize revenues received. It is important to understand that these numbers are preliminary (unaudited) as of June 30, 2017 and fiscal year-end adjustments will be made as we progress through the annual external audit.

The City has closed FY2017 and is in the process of completing the financial reports in anticipation of the annual external audit scheduled to begin in the coming weeks. The Finance team is striving for issuing the FY2017 CAFR by December 31, 2017.

Respectfully submitted,

Luke A. Bronin
Mayor

550 Main Street
Hartford, Connecticut 06103
Telephone (860) 757-9500
Facsimile (860) 722-6606

INTRODUCTION

The Court of Common Council Adopted the FY2017 Budget on May 23, 2016. After the initial adoption of the FY2017 Budget, there were eight (8) Council actions that amended appropriations that were mostly comprised of reallocating funds among the City's various departments and offices. Below is a summary of the actions that established and revised the FY2017 Budget:

<u>Date</u>	<u>Method</u>	<u>Amount</u>	<u>Purpose</u>
<i>May 23, 2016</i>	Ordinance	\$552.9 million	<i>Initial Adoption</i>
<i>May 23, 2016</i>	Resolution	\$119,429	<i>311 to Constituent Services</i>
<i>November 28, 2016</i>	Resolution	\$32,795	<i>Council to ROV</i>
		\$95,500	<i>Non-Operating to Public Works</i>
<i>January 23, 2017</i>	Resolution	\$198,264	<i>Non-Operating to ROV</i>
<i>January 30, 2017</i>	Resolution	\$1,207,044	<i>Police & Benefits to Education</i>
<i>February 14, 2017</i>	Resolution	\$44,794	<i>Non-Operating to ROV</i>
<i>April 10, 2017</i>	Resolution	\$26,840	<i>Non-Operating to ROV</i>
<i>June 29, 2017</i>	Resolution	\$4,014,000	<i>Year-end Transfer, Multiple Departments</i>
<i>July 10, 2017</i>	Ordinance	\$5,978,880	<i>Year-end Appropriation, Benefits & Insurances and Non-Operating</i>

The transfers and appropriations summarized above adjusted the original FY2017 Adopted Budget of \$552,941,620 to the Revised FY2017 Adopted Budget of \$558,920,500. To support the close of FY2017, we have submitted a request for Council's authorization to transfer unencumbered remaining appropriations in the General Fund to fund actual expenses of other departments.

On April 13, 2017 in anticipation of a projected FY2017 deficit, the City issued \$20.165 million of Tax Anticipation Notes (TAN) to ensure our ability to fund operations and obligations city-wide through the end of the Fiscal Year. The City was able to successfully reduce the projected use of TAN proceeds by continuing to manage expenditures and collect revenues.

REVENUE PROJECTIONS

This section presents the preliminary fiscal year-end review of revenue. The information provided below is subject to change due to the fiscal year-end external audit to be performed by RSM LLP.

The fourth quarter revenue report as of June 30, 2017 reflects actual revenues of \$544.09 million or 99.9% of the Adopted Budget of \$544.55 million. Actual revenues are \$0.46 million lower than the Adopted Budget. The Adopted FY2017 Budget appropriated the use of \$8.39 million of Fund Balance to match the expenditure appropriation of \$552.94 million. In addition, as noted above, the TAN provided a source of funding for any expenditures above the adopted revenue budget and appropriated use of fund balance.

A more detailed analysis of each revenue category is presented below:

General Fund - Citywide

Taxes

Revenues from FY2017 tax levies and interest collections totaled \$259.0 million, which is less than the Adopted Budget by \$1.3 million. In total, the overall tax revenue category including current and prior fiscal year tax levies as well as sale of tax liens, is expected to be 99.5% of the Adopted Budget before audit adjustments. The sale of tax liens budgeted at \$4 million was not achieved based on the pool of eligible tax liens (e.g., excludes owner occupied or liens less than \$1,000) resulting in FY2017 total tax lien sales of \$2.4 million.

Licenses and Permits

This budget category ended FY2017 with total revenues of \$5.4 million, which is less than the Adopted Budget by \$1.1 million. The shortfall was led by the electrical, mechanical, plumbing and building permit revenue underperforming the Adopted Budget by \$1.1 million.

Fines, Forfeits and Penalties

Revenues collected in this category approximate \$161,400 which is \$10,600 lower than the Adopted Budget of \$172,000. The decrease is a result of increased collection efforts for false alarm citations.

Revenue from the Use of Money and Property

This revenue category ended FY2017 \$0.2 million above the Adopted Budget of \$2.1 million. This positive variance is a result of increases in rental income.

Intergovernmental Revenues

Despite the heightened and ongoing concerns during the fiscal year about the State of Connecticut's budgetary challenges, this revenue category ended FY2017 at 99.9% or \$0.2 million below the Adopted Budget of \$266.7 million.

The State payment in lieu of taxes (PILOT) revenue continues to be funded at amounts below the statutory level significantly impairing the City's overall revenue structure. For FY2017, the City requested \$89.5 million from the State for PILOTs for Colleges, Hospitals and State-Owned

Property in accordance with the statutory reimbursement formula. However, the City actually received \$37.2 million from the State due to their available budget to fund the program.

Charges for Services

An overall positive variance of \$700,000 was realized in this category. The conveyance tax and special events revenue outperformed the Adopted Budget. Total actual revenues of \$3.5 million have been received in this general category versus the Adopted Budget of \$2.8 million.

Reimbursements

The reimbursements category ended FY2017 at \$156,700 or 72.0% of the \$217,550 Adopted Budget. This category includes miscellaneous transfers to offset the costs of fringe benefits and indirect costs for various federal and state programs.

Other Revenues

The City realized \$1.0 million of the \$1.2 million budgeted from the sale of various City-owned properties and surplus equipment.

Other Financing Sources

The City received \$6.0 million in this category, which is \$1.5 million above the Adopted Budget of \$4.5 million. This is a result of increased collection efforts for Police private duty and other short-term investment income.

General Comments

Total revenues of \$544.1 million for FY2017 are 0.1% below the Adopted Budget of \$544.5 million due to improved budgeting and the successful collection of current and prior fiscal year revenues.

EXPENSE PROJECTIONS

This section presents the preliminary fiscal year-end review of expenditures. The information provided below is subject to change due to the fiscal year-end external audit to be performed by RSM LLP.

Municipal

Expenses for FY2017, are preliminarily projected at \$553.1 million, which represents a favorable variance of \$5.8 million (1.0%) to the Revised Adopted Budget of \$558.9 million and an unfavorable variance of \$0.2 million (0.04%) to the Initial Adopted Budget of \$552.9 million.

		<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Adjusted Budget</u>	<u>YTD Expended</u>	<u>Remaining Balance</u>	<u>PCT Exp</u>
010 General Government							
00111 MAYOR'S OFFICE		\$ 624,648	\$ 105,429	\$ 730,077	690,349	\$ 39,728	94.6 %
00112 COURT OF COMMON COUNCIL		596,693	(18,795)	577,898	564,932	12,966	97.8 %
00113 TREASURER	(1)	391,650	-	391,650	444,094	(52,444)	113.4 %
00114 REGISTRARS OF VOTERS	(2)	414,518	302,693	717,211	669,710	47,501	93.4 %
00116 CORPORATION COUNSEL	(3)	1,593,095	75,000	1,668,095	1,653,425	14,670	99.1 %
00117 TOWN & CITY CLERK	(4)	739,490	-	739,490	768,740	(29,250)	104.0 %
00118 INTERNAL AUDIT		490,980	-	490,980	512,828	(21,848)	104.4 %
00119 CHIEF OPERATING OFFICER	(5)	369,843	(20,000)	349,843	295,268	54,575	84.4 %
00120 COMMUNICATIONS & NEW MEDIA	(6)	541,098	(25,000)	516,098	466,193	49,905	90.3 %
00122 METRO HARTFORD INFORMATION SER		3,118,247	(119,429)	2,998,818	2,998,818	-	100.0 %
00123 FINANCE		3,610,884	(360,000)	3,250,884	3,468,517	(217,633)	106.7 %
00125 PERSONNEL	(7)	1,245,831	(210,000)	1,035,831	945,827	90,004	91.3 %
00128 OFFICE OF MANAGEMENT & BUDGET		883,877	(185,000)	698,877	635,636	63,241	91.0 %
TOTAL General Government		14,620,854	(455,102)	14,165,752	14,114,338	51,414	99.6 %
020 Public Safety							
00211 FIRE		36,373,153	(25,000)	36,348,153	36,871,567	(523,414)	101.4 %
00212 POLICE		44,073,922	(3,455,000)	40,618,922	40,106,366	512,556	98.7 %
00213 EMERGENCY SERVICES & TELECOMMU	(8)	3,742,604	-	3,742,604	3,710,371	32,234	99.1 %
TOTAL Public Safety		84,189,679	(3,480,000)	80,709,679	80,688,303	21,376	100.0 %
030 Public Works							
00311 PUBLIC WORKS	(9)	11,774,521	512,500	12,287,021	12,651,644	(364,623)	103.0 %
TOTAL Public Works		11,774,521	512,500	12,287,021	12,651,644	(364,623)	103.0 %
040 Human Services							
00132 CHILDREN FAMILY RECREATION	(10)	2,474,778	(170,000)	2,304,778	2,037,650	267,128	88.4 %
00520 HEALTH AND HUMAN SERVICES	(11)	4,241,691	1,050,000	5,291,691	4,789,149	502,542	90.5 %
TOTAL Human Services		6,716,469	880,000	7,596,469	6,826,798	769,671	89.9 %
050 Culture & Recreation							
00132 CHILDREN FAMILY RECREATION		1,061,834	35,000	1,096,834	1,078,077	18,757	98.3 %
TOTAL Culture & Recreation		1,061,834	35,000	1,096,834	1,078,077	18,757	98.3 %
065 Economic Development							
00420 DEVELOPMENT SERVICES		3,229,396	(440,000)	2,789,396	2,917,517	(128,121)	104.6 %
TOTAL Economic Development		3,229,396	(440,000)	2,789,396	2,917,517	(128,121)	104.6 %
070 Debt Service							
00821 DEBT SERVICE	(12)	30,079,004	1,820,000	31,899,004	32,017,824	(118,820)	100.4 %
TOTAL Debt Service		30,079,004	1,820,000	31,899,004	32,017,824	(118,820)	100.4 %

		<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Adjusted Budget</u>	<u>YTD Expended</u>	<u>Remaining Balance</u>	<u>PCT Exp</u>
099 OVERHEAD/DISTRIBUTIVE							
00820 BENEFITS & INSURANCES	(13)	74,965,228	5,561,836	80,527,064	77,982,730	2,544,334	96.8 %
00822 NON OP DEPT EXPENDITURES	(14)	35,642,640	337,602	35,980,242	32,982,767	2,997,475	91.7 %
TOTAL OVERHEAD/DISTRIBUTIVE		110,607,868	5,899,438	116,507,306	110,965,497	5,541,809	95.2 %
TOTAL Municipal		262,279,625	4,771,836	267,051,461	261,259,999	5,791,462	97.8 %
00711 EDUCATION		282,801,144	1,207,044	284,008,188	284,008,188	-	100.0 %
00721 HARTFORD PUBLIC LIBRARY		7,860,851	-	7,860,851	7,860,851	-	100.0 %
GRAND TOTAL		\$ 552,941,620	\$ 5,978,880	\$ 558,920,500	553,129,038	\$ 5,791,462	99.0 %
*Current Year expenses include period 12 and period 13 through 9/14/17							
(1) - Reflects payroll costs that will be transferred to Pension Fund at year end.							
(2) - Funds expended and transferred for November election and funds expended for February election activities prior to transfer from Sundry.							
(3) - Reflects payroll costs that will be transferred to CIP and Pension Fund(s) at year end.							
(4) - Funds encumbered, primarily for land records services.							
(5) - Reflects primarily LSNi payroll costs that will be transferred to CIP at year end.							
(6) - Funds encumbered for postage and printing technical/equipment services.							
(7) - Reflects year to date departmental vacancies.							
(8) - Reflects overtime costs incurred that will be offset by general fund and grant attrition savings.							
(9) - Funds encumbered, primarily for technical and professional services and various operational supplies. Reflects increased costs associated with snow overtime, snow contractors and salt expenses.							
(10) - Payments for youth community services primarily expended for full year.							
(11) - Reflects increased expenditures for Relocation services due to fires and other displacements, resulting in a projected deficit in excess of \$1 million for FY2017.							
(12) - Reflects payments for debt service in accordance with debt schedule. The FY2017 Debt Service budget included the City's Lease Payment to the Stadium Authority, net of Stadium Proforma revenues. Hartford Stadium revenues will partially offset the Debt Service expenditures reflected above.							
(13) - Reflects unachieved concessions and increased expenditures associated with employee vacation and sick leave payouts upon separation. Payments for liability insurance premium occur at the beginning of the fiscal year. In addition, reimbursement of fringes from grants occurs quarterly through fiscal year end.							
(14) - Funds encumbered, primarily for utilities and lease payments. Payments for community activities and government agencies have occurred near the beginning of the fiscal year. In addition, there are increased costs associated with legal expenses and settlements.							

General Fund - Citywide

Attrition & Overtime

The Citywide attrition budget of \$3.0 million exceeded the Revised Adopted Budget by 6.5 million in FY2017 as a result of departmental vacancy savings and aggressive management of position refills.

Overtime exceeded the Revised Adopted Budget by \$4.6 million for certain departments. The Fire Department exceeded budgeted overtime by approximately \$3.9 million due to the number of retirements in FY2017; the Department of Public Works by approximately \$440,000 due to snow operations and general service needs; Emergency Services & Telecommunication by approximately \$228,000 related to dispatcher vacancies; and the Police Department by approximately \$75,000 due to service needs and Special Events. Attrition savings, net of overtime, are favorable by \$1.9 million.

Debt

Debt Service payments were \$32.0 million in FY2017. This is \$0.1 million above the Revised Adopted Budget of \$31.9 million, which excluded the \$115,583 of debt service related to the Clean Water Fund loan originally issued as part of the Tower Brook Conduit project. All of the City's debt obligations were met for FY2017.

Benefits & Insurance

The City's FY2017 Benefit & Insurance expense is projected to be \$78.0 million. This represents a favorable variance to the \$80.5 million Revised Adopted Budget of \$2.5 million. The main driver of this favorable variance is the recoupment of prior year chargebacks from grant sources.

Non-Operating

As a whole, the fuel, utility and tipping fee costs were favorable to the Revised Adopted Budget by \$1.3 million in FY2017. The City's payment for electricity for streetlights and buildings, water, and gasoline for citywide fleet and other disposal fees were under budget. Contributing factors also included negotiation of favorable market rates amongst utilities and other energy saving measures.

Education

The direct appropriation to the Hartford Public Schools remained in-line with the Revised Adopted Budget at \$284.0 million and reflects the full reimbursement of School Crossing Guard expenses for FY2017.

Hartford Public Library

The direct appropriation to the Hartford Public Library remained in-line with the Adopted Budget at \$7.9 million.

FUND BALANCE PROJECTIONS

This section presents preliminary fiscal year-end change to general fund balance. The information provided below is subject to change due to the fiscal year-end external audit to be performed by RSM LLP.

There are five Governmental Accounting Standards Board (GASB) classifications to municipal fund balances:

- Non-Spendable;
- Restricted;
- Committed;
- Assigned; and
- Unassigned.

Each fund balance classification has certain characteristics that categorized the type of fund balance based on constraints imposed upon the use of the resources reported in the funds. For

purposes of this report, we have focused on the Assigned and Unassigned fund balance. Assigned fund balance is the classification for monies that have been identified by the City for future use. Unassigned fund balance is the residual classification and includes all spendable amounts that have not been contained in the other categories. The Unassigned fund balance was previously referred to as Undesignated, and also known as the “rainy day fund.”

Based on unaudited FY2017 revenues and expenditures, the City estimates that the Unassigned fund balance for FY2017 will be \$4.56 million after use of FY2016 assigned fund balance and marginal use of the proceeds from the TAN issued in April 2017. The following chart summarizes revenues, expenditures and use of TAN proceeds for FY2017.

GENERAL FUND BALANCE (\$ Millions)					
FY2017 (Unaudited)					
	Adopted Budget	Revised Budget	Year End Estimate	Revised \$ Variance	Revised % Variance
Revenues	544.55	544.55	543.75	(0.80)	(0.15)
Expenses	552.94	558.92	553.05	(0.11)	(0.01)
Change in Fund Balance	(8.39)	(8.39)	(8.39)	--	--
TAN Proceeds Used	--	(5.98)	(0.91)	(0.91)	(0.16)
Change in Fund Balance	(8.39)	(14.37)	(9.30)	(0.91)	(0.16)
Fund Balance-Start of Year	13.86	13.86	13.86	--	--
Fund Balance-End of Year	5.47	(0.51)	4.56	(0.91)	(0.16)

The reduction in the fund balance shown below is a result of the appropriated use of \$8.4 million of Assigned fund balance included in the FY2017 Adopted Budget. In addition, governmental accounting standards do not allow for the proceeds of Tax Anticipation Notes to be recognized as revenue. Accordingly, the \$0.91 million use of TAN proceeds shown above to pay FY2017 expenditures will further reduce the Unassigned fund balance. This will result in the Unassigned fund balance decreasing from \$5.5 million as of June 30, 2016 to an estimated \$4.6 million as of June 30, 2017. The graph below reflects the fiscal year ending general fund balance since Fiscal Year 2005.

