Pedro E. Segarra
Mayor

February 14, 2012

Honorable Shawn Wooden, Council President, and
Members of the Court of Common Council
City of Hartford
550 Main Street
Hartford, CT 06103

RE: Second Quarter Financial Report

Dear Council President Wooden:

I am pleased to submit to you, the Second Quarter Financial Report for Fiscal Year 2011-2012 (FY 11-12). The Fiscal Year FY 11-12 Department Performance Measures Report, Quality of Life Report, Internal Audit Report and Non-Financial Resolutions Report are now all accessible on-line on the City's Management & Budget website: http://managementandbudget.hartford.gov/webfiles/reports_and_presentations.aspx. The Monthly Financial Reports for the months of October, November and December are posted online at http://finance.hartford.gov/webfiles/monthly.aspx.

As we move forward through this fiscal year, it is essential that each department adheres to my first goal: ***Each City office and department makes professional and fiscally responsible decisions based on data and delivers quality customer service that advances the city's well being.*** Each activity and action has and will be monitored, measured and developed to ensure they are not only fiscally responsible, but also directly responsive to the needs of the community.

As of December 31, 2011, subject to the external auditors review, the City's Administration, with consideration of mitigating management strategies further outlined below, is conservatively forecasting an unfavorable balance between revenue and expenditures of $3,777,000, or 0.7% in the General Fund, against the *Revised Budget*. (The *Revised Budget* incorporates the supplemental State revenue and the additional appropriation of $1,250,000 recommended by the Mayor and approved by City Council for the *Livable and Sustainable Neighborhoods Initiative*). This net unfavorable balance of $3,777,000 results from a projected operating challenge of $12,227,000, less $8,450,000 resulting from mitigation strategies as described in detail below.

Revenues for this fiscal year are anticipated to decrease from the Revised Budget level of $547,194,221 to $545,401,000, a decrease of $1,793,221 (0.3%). Expenditures, predominantly fixed overhead expenses, for this fiscal year are currently projected to be $549,178,000; an increase of $1,983,779 (0.4%) above the Revised Budget. For several months, my administration has been undertaking various management strategies designed to arrive at a balanced year-end budget. While each of these initiatives are individually important, the bedrock of our financial practices is maintaining close and constant attention through weekly monitoring and monthly reporting of our revenues and expenditures. This management oversight practice has been on-going for two years and has allowed us to successfully close similar budget gaps.

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As of the second quarter, our management strategies are projected to mitigate approximately $8,450,000, or 69%, of the forecasted year-end shortfall. Throughout the fiscal year we will continue to implement the initiatives described below and report on the status of our progress each quarter.

Summary of FY 11-12 Challenges and Mitigation Strategies

The following table details the forecasted unfavorable budget variances and the mitigation strategies to offset these variances as of the second quarter for FY 11-12. These budget variances and mitigation strategies will be explained in detail in the Revenue and Expenditure sections that follow.

Challenges:	
Revenues:	
Tax Lien Sales Reduction	$ 1,500,000
Intergovernmental Revenue (Pequot)	1,500,000
Licenses and Inspections	700,000
Use of Money	393,000
Total Revenue Challenges	**$ 4,093,000**
Expenses:	
Benefits & Turnover Reduction Targets	4,550,000
Police OT	1,700,000
October Snow Storm	1,100,000
Board of Education	643,000
Other Expenses	141,000
Total Expense Challenges	**$ 8,134,000**
Total Challenges	**$ 12,227,000**
Mitigation/Operational:	
Revenues:	
Property Taxes (Prior Year Levies)	1,500,000
Other Revenues	800,000
Total Revenue Mitigation/Operational	**$ 2,300,000**
Expenses:	
Q2 Salary Savings	2,500,000
Improved Medical Benefit Experience	1,200,000
Other Employee Benefits (W/C, SS, Unemployment)	1,200,000
Tipping Fees	750,000
Property Insurance	500,000
Total Expense Mitigation/Operational	**$ 6,150,000**
Total Mitigation/Operational	**$ 8,450,000**
NET	**$(3,777,000)**

REVENUE PROJECTIONS

This section provides management's revenue commentary and strategies

Management's General Revenue Enhancement Strategy for FY 2011-12

At the time the City adopted its revenue budget, the State budget remained unsettled. To ensure financial security, a conservative estimate was used in the Mayor's recommended revenue budget projections. After adoption of the FY11-12 Budget, additional revenues were identified in the State budget, which the Mayor, working with the Council, utilized to lower the mill rate and provide additional resources for the eradication of neighborhood blight through the *Livable and Sustainable Neighborhoods Initiative*. While we remain conservative in our outlook, we are equally confident that the State of Connecticut will work with the City to fully fund the revenue estimates. At the current time we project a revenue shortfall, as compared to budget, of $1,793,221, or 0.3%.

Other strategies and concerns are presented in the following narrative.

Taxes:
Revenues from prior year tax levies and interest are projected to exceed the Revised Budget by $1,500,000. The sale of real estate tax liens impacts our prior year tax collections and has a detrimental effect, both direct and indirect, on redevelopment. Accordingly, every effort is being made to reduce dependency on the sale of tax liens with an eye toward entirely eliminating such sales.

> **Management Strategy**
> The continuation of aggressive, yet fair and understanding, collection policies will continue during the fiscal year. Monitoring the tax revenue accounts is imperative in the management of the City's financial systems. As of the end of the first quarter, the $7.9M in revenue budgeted from the sale of real estate liens is anticipated to occur toward the close of the fourth quarter. If however, prior year tax levies and interest continue to outperform budgeted amounts, real estate tax lien sales should and will be reduced.

Licenses and Permits:
While we look forward to the spring construction season, we are currently projecting that the slow rate of recovery that has become evident over the last quarter will continue and our actual revenue may underperform the budget estimates by $700,000 for FY 2011-2012.

> **Management Strategy**
> To offset the potential loss of revenue in this category, collection efforts continue to be a priority of the Finance Department.

Fines, Forfeits and Penalties:
These revenues are tracking in-line with the revised budget.

Revenue from the Use of Money and Property:
We are forecasting an overall decrease of $393,000 in this category.

> **Income from Investments:**
> These revenues are projected to exceed the revised budget by $200,000.

> **Income from Use of Property:**
> While discussions with the City Treasurer regarding rent re-imbursement from the Pension Commission are on-going, we are not at this time expecting any increase to be realized (currently budgeted at $393,000).

Income from Development Properties:
These revenues are projected to underperform by $200,000.

Management Strategy
The Finance Department is reviewing all City leases to identify potential revenue and is developing control procedures to ensure the collection of all lease revenue. The Finance Department, in conjunction with the Department of Public Work's facility utilization study, is in the process of reviewing all City-owned vacant buildings for potential sale and leasing opportunities.

Intergovernmental Revenue:
We are projecting an overall decrease of $1.5 million in this category.

State Grants-In-Aid:
A shortfall of $1.5 million dollars is projected from revenue received for the Mashantucket Pequot and Mohegan Fund Grant. However, this year, for the first time, as part of the State Budget, a small portion of the state's sales tax and conveyance tax is now being appropriated to municipalities. This was done after the City had adopted its own budget. At this time we do not know what the actual revenue amount will be. In the third quarter, once the Governor's biennial budget is released, we expect to have a better indication of these potential revenues.

Payments in Lieu of Taxes:
These revenues are tracking in-line with the revised budget.

Charges for Services:
A potential shortfall is possible in this category if the Conveyance Tax continues to underperform as a result of the current economic condition in the real estate transaction market. The Finance Department projects that 3rd and 4th quarter real property transactions will compensate for the current performance of Conveyance Tax revenue.

Reimbursements:
These revenues are tracking in-line with the revised budget.

Other Revenues:
An overall increase of $800,000 may be realized in this category.

Miscellaneous:
The anticipated sale of City owned land, this fiscal year or next, located at 185 Asylum Street is expected to yield unbudgeted revenue of approximately $1 million dollars.

Other Financing Sources:
A potential shortfall is possible in this category. During the past two fiscal years the Hartford Parking Authority has set aside funds in a renewal and replacement reserve account.

The challenges posed by a recessionary economy and stubbornly high unemployment rate continue to place great stress on the taxpaying public. My administration will continue to monitor revenues closely and is aggressively pursuing opportunities to improve collections and identify new revenue sources.

EXPENDITURE PROJECTIONS

This section explains the expenditure adjustments by entity.

General Fund:

Municipal:
Expenditures are forecasted to increase from the Revised Budget of $547,194,221 to $549,178,000, an increase of $1,983,779 (0.4%). Through the end of the Second Quarter of FY 11-12, the municipal operating departments expended $286.7 million, which equates to 52.4% of the Revised Budget. We will continue to monitor each expenditure category as the fiscal year progresses and report back to the Council at the end of the third quarter with an updated budget forecast.

For the balance of FY 11-12 we must continue to assertively monitor and manage the General Fund expenditures to ensure a balanced year-end budget. We cannot afford to allow actual expenses to outperform realized revenues. Budget reduction initiatives, begun in the first quarter, such as a delayed hiring policy for non-public safety positions, reductions in public safety overtime through closer examination of scheduling, hiring and promotional activities, a continued favorable trend in medical claims experience and other expense reductions, must continue throughout the fiscal year in order to avoid actual lay-offs and uphold long-term operational and financial sustainability.

Operating Department's Expenses:
There are several operating expense challenges that we face during the next several months. Below is a list of these challenges.

Budget Target Reductions:
During the development of the FY 11-12 Budget we set a target to reduce employee benefit and liability insurance expenditures by $4,550,000. As Mayor I am committed to attaining these targeted budget reductions and, as of the second quarter, we are 64% of the way there. We are conservatively anticipating savings of $1,200,000 in medical claims and related medical expenses, $500,000 in property & casualty insurance and other insurance coverages, and $1,200,000 in other employee benefits.

Police Overtime Expenditures:
Police Overtime (OT) expenses, on a year-to-date basis through the second quarter, continue to run slightly below last year's experience. Nevertheless, due to budget reductions and the successful efforts of the Shooting Team, the Police Chief continues to project Police OT will be approximately $1,700,000 over budget. My staff has conducted an initial analysis to better understand the cost drivers affecting Police OT. Although the analysis is not fully completed, we can already see that there are areas related to staffing and deployment of sworn personnel that are significant drivers of overtime. As we continue to review Police OT we expect to find solutions that will help mitigate this variance in the future.

Registrars of Voters Temporary Labor:
As of the second quarter, it is still projected by the Registrar's Office that they will exceed their budget by approximately $255,000. The Registrars have indicated that this is primarily a result of the expenses associated with the Republican Presidential Primary and the work required to redistrict the city. Currently, ther is a resolution pending Council action (totaling $55,000) that will help mitigate this budget variance. Nevertheless, more savings will be needed in the future to mitigate the entire Registrars Office variance from budget.

October Snow Storm:
As of the second quarter, we are estimating a cost, which was not budgeted, of approximately $1,100,000 associated with the very rare and historic October 2011 snow storm. As with all our neighbors in the Northeast region, Storm Albert impacted Hartford and caused the need for significant services to ensure the safety of our residents and recovery from damage. The total cost of the storm was $4.4 million. We are working with our partners in the Federal government to receive Federal Emergency Management Agency money for up to 75% of the total cost, reducing the City's direct cost to $1.1 million. Most importantly, our City was prepared for this challenge, responded accordingly and kept our community safe during this difficult time.

Board of Education:
The direct appropriation to the Hartford System of Public Schools (HSPS) will be increased by $643,000. I will be sending an ordinance to the Council very shortly requesting that the HSPS budget be increased. This increase is the result of the State's minimum budget requirement, which calls for City funding equal to $284,008,188. The BOE budget request to City Council was $283,365,374, which is equal to the amount adopted by the Council during the Fiscal Year 11-12 adoption process. The Connecticut State Department of Education determined that the dollar amount to be appropriated based on the HSPS budget request initially submitted, and approved by City Council, does not comply with statutory language governing the Minimum Budget Requirement.

Hartford Public Library:
The direct appropriation to the Hartford Public Library will remain on-line for the second quarter report.

In summary, the expenditure management plan for the balance of this fiscal year encompasses the following:

- We have eliminated the majority of planned attrition in the operating departments due to employee separation for the full year totaling $2,500,000.
- Improved medical claims experience coupled with our recent initiative to competitively bid our property and casualty insurance has saved the City money. All told, these benefit categories are expected to be down as compared to budget by a total of $2,800,000.
- A reduction in Tipping Fees of $750,000. This is a result of lower waste volume and a concerted effort by my Administration for increased recycling.

Conclusion

My administration and I continue to work diligently to examine the operational and fiscal challenges that confront our community. Many of our residents have been deeply affected by the long and protracted economic downturn, and we anticipate lean and challenging years ahead. Today, more than at any other time in recent history, our revenue sources are at risk. With a protracted depressed economy, federal, state and local governments are facing revenue challenges that will impact our ability to provide our existing level of service and ensure a balanced budget for the next several years. Looking ahead to next year, we have a significant revenue challenge. The 2012 property revaluation, which brings taxes into line with the current economic conditions, will make it very difficult to balance the 2012-2013 budget. Even with these challenges, my Administration is committed to offsetting as much of this revenue shortfall by mitigating the growth of the key expenditure drivers without diminishing critical levels of service. To do this will require the full support and commitment of the Administration, Court of Common Council, City Treasurer and our employees and bargaining units.

It is our charge to consistently seek ways to make our government more accountable and more efficient. As Mayor, I will always emphasize that the delivery of quality services must result from professionally and fiscally responsible decisions that are based on data. Put another way, we can no longer make decisions based on what merely seems

appropriate or what is politically expedient, but are instead based on quantitative and fiscally sound data. In spite of these challenges, we must continue to build on our positive momentum and work collaboratively and strategically to improve education, pursue development opportunities that we are confident will lead to long-term growth, increase the tax base and improve the overall quality of life for all Hartford residents.

I will continue to work with appropriate stakeholders – Court of Common Council, City Treasurer, employees and bargaining units, residents and business – to discover new revenue generating strategies as well as areas to reduce expenditures throughout the whole organization. Hartford can continue on its steady upward path if we remain committed to active, honest and inclusive community collaborations.

There can be no question that all efforts are being made, and I look forward to continued support from the Court of Common Council, to implement our management strategies for both revenue and expenditures to have a balanced year-end budget for FY 11-12.

Respectfully submitted,

Pedro E. Segarra
Mayor