

GENERAL FUND EXPENDITURE AND REVENUE FORECAST ASSUMPTIONS FISCAL YEARS 2017 THROUGH 2021

The primary purpose of this forecast is to present a prospective view of the City's General Fund revenue and expenditure levels during the next five years. It is important to note that as assumptions are replaced by reality in future years, the forecast will fluctuate. As such, this forecast should be used as a management and planning tool and amended annually. It is also important to note that the Court of Common Council is mandated by Charter to adopt a balanced budget. Therefore, any projections indicating a budget deficit will require adjustments before budget adoption. These adjustments will range from reducing expenditures to raising revenues or a combination of both.

Assumptions for Revenue Projections

The General Fund revenue forecast highlights revenue increases for Hartford as we embark on new and significant opportunities. These opportunities will continue to increase most categories, throughout the forecast. The City will anticipate a broader tax base with new developments in store and additional fees for different city services. These opportunities are explained in the revenue section.

Taxes are a major source of revenue. The tax revenue projection for the fiscal year 2017 budget reflects the revenue loss due to motor vehicle mill rate cap per legislation passed by the General Assembly of the State of Connecticut on June 3, 2015 but not signed by the Governor at the time the budget book was developed. Future year property tax revenue will hopefully increase with a continued improvement in the collection rate, coupled with new property development in the City to help grow the grand list. Significant increases in the mill rate are not anticipated; the budget forecast continues to reflect an increase in the net grand list for future years and a reduction on the sale of tax liens, with the goal of entirely eliminating such sales in the future.

Licenses and Permits revenues have increased because of significant building activity in the downtown area. With new property development expected to continue in the future, the outlook for this revenue category is expected to perform above normal expectations.

Fines, Forfeits and Penalties will increase slightly because of revisions to the false alarm ordinance. This category is relatively small and is not a major source of revenue.

Revenue from the Use of Money and Property is expected to remain flat for fiscal year 2017. Future year revenue beyond fiscal year 2017 is expected to decrease because the last rent payment for the Morgan Street Garage is due in fiscal year 2017. Interest rates will eventually increase with an improving economy.

Intergovernmental Revenue is a major source of revenue to the City. The City relies heavily on state assistance since a significant portion of tax exempt properties are within the Capital City's boundaries. The State payment in lieu of taxes (PILOT) revenue continues to be funded at amounts below the State statutory level; significantly impairing the City's overall potential revenue structure. A fully funded PILOT grant would enable the City to ease the tax burden on taxpayers and fund the services necessary to ensure adequate education, public safety and the maintenance and improvement to infrastructure. Future year projections include proposed changes to PILOT programs and provision for a percent of state sales tax revenue to be shared directly with cities and towns. These proposed changes were part of the budget which was passed by the General Assembly of the State of Connecticut on June 3, 2015 but was not signed by Governor at the time the budget book was developed.

Charges for Services for fiscal year 2017 will increase with higher fees and additional fees for various City services, as we continue to review and modify our fee structure.

Reimbursements include miscellaneous reimbursement amounts and prior year expenditure refunds. There are no anticipated major changes projected for this revenue category.

Other Revenue includes the sale of development properties and other miscellaneous revenues. The sale of City property will decrease in fiscal year 2017 and subsequent years are expected to remain relatively flat since there are no major properties that are expected to be sold.

Fund Balance is expected to remain constant over the next several years. There are no plans to draw upon fund balance to meet expenditure activity. The City recognizes that the planned use, or the use based upon unfavorable results of budgetary operations, will adversely affect the ability to effectively access the bond market; and impact the interest cost of bond and note issuance.

Assumptions for Expenditure Projections

Municipal

Operating Expense: City Operating Departments (excluding Hartford Public Schools and the Library) show a 0.7% projected increase in expenditures for the FY2016 Adopted Budget compared to the FY2015 Adopted Budget. In future years operating departments are projected to increase expenses by approximately 2.2% in FY2017, primarily as a result of wage increases tied to collective bargaining agreements with the various City unions. For FY's 2018 to FY 2021, expense growth is projected to continue at approximately 2.2%, on average, again tied to long term collective bargaining agreements and inflationary increases.

Benefits and Insurances: In the FY2016 Adopted Budget, Benefits and Insurances are projected to decrease 25.3%. This is primarily the result of utilizing \$12.9 million in available Health Benefits Reserve and a reduction in Health Insurance cost of approximately \$3.0 million associated with savings from competitive bidding of health insurance providers. For FY2017 and beyond, normal Benefit expenses are expected to grow at approximately 5.0% to 7.0%, then stabilizing at approximately 4.0% for the remaining years, as it is expected that Pension Contributions will remain relatively flat and Health Insurance will stabilize at a rate of twice the rate of inflation.

Debt Service: Debt Service is projected to increase approximately 16.0% in the FY2016 Adopted Budget versus the FY2015 Adopted Budget. This is the result of net changes between growth in principal and interest and savings resulting from the restructuring of debt. For FY2018 and beyond, debt service is expected grow significantly as long term debt cycles through a higher level of debt service and as additional capital investments are made to improve City infrastructure and School Construction.

Non-Operating Department Expenses: In the FY2016 Adopted Budget these expenses are projected to increase by only 0.1% compared to the FY2015 Adopted Budget. In the future it is expected that these expenses will grow at the rate of inflation. Incorporated within this projection are payments to community activities, payments to government agencies, payments to outside agencies, lease payments, client server technology, fuel, utility, tipping fees, legal expense and settlements.

Education: The City's education contribution to the Hartford Public School System is projected to be flat for the foreseeable future. This estimate is based on the fact that the State of Connecticut will continue to increase funding directly to the Hartford Public Schools in the form of Alliance Grants. These grants will grow in size by approximately \$4.0 to \$5.0 million per year for five years. As a result, total education spending (general fund, special funds and in-kind contributions) is projected to continue to grow through FY2017.

Library: The City's contribution to the Hartford Public Library is projected to be essentially flat for the foreseeable future. The City will be working with the Hartford Public Library to find ways of providing in-kind services to help defray the Library's future expense increases.

Total Gap Between Revenues and Expenditures



