

City of Hartford

FY2018 Adopted Budget

Mayor Luke A. Bronin

www.hartford.gov



LUKE A. BRONIN
MAYOR

July 1, 2017

Dear Fellow Hartford Residents:

Last year, I said that the City of Hartford stood at a moment of tremendous opportunity and tremendous challenge. Today, the opportunities are even more clear. And the challenges are even larger and more urgent.

Though we are a small city, we have strengths that few cities our size can claim. We are the employment center for the region, with nearly one hundred thousand people commuting to Hartford for work every day. We're a sports town - proud host of UCONN basketball and hockey, the Wolf Pack, and now the Hartford Yard Goats. We are a center of arts and culture, with world-class producing stages, a symphony, the state's largest performing arts center, a magnificent art museum, great restaurants, the Mark Twain house, the new Coltsville Historic National Park, and countless community arts and cultural institutions.

This fall, UCONN's downtown campus will open its doors for thousands of students. Next year, Hartford will once again have commuter rail service to New Haven and Springfield. The Capital Region Development Authority continues to spur investment in housing and other commercial development. We continue to have a corporate community that recognizes that Hartford is their partner, and worthy of their support.

For all those reasons and many more, I believe with all my heart that Hartford can once again be the strong heart of this region of a million people, with everyone in Hartford sharing in our city's rise. And yet, at the same time, we face the most significant budget crisis in our city's history, while the State of Connecticut faces its own budget crisis.

Facing that crisis, we have adopted a bare-bones, essential services budget. It focuses on basic services only. It assumes no new borrowing for this fiscal year. It makes additional reductions in city-funded services, and retains the deep cuts made last year. It includes millions of additional savings, such as a new energy contract and renegotiated building leases.

And yet despite providing only basic functions that are essential for our city, the budget we have adopted has a \$50 million gap between revenues and expenditures - assuming no significant changes in the relationship between the State of Connecticut and Hartford.

Hartford's budget crisis has been decades in the making, and there are many causes of the deficit we face. Comparing this year's budget to last year, our costs increase because of rising debt service payments, higher required pension contributions, inflation in health care costs, costly legal judgments from years past, and the absence of serious concessions from our labor unions, with the exception of the Hartford Fire Fighters Association.

But the much bigger reason for Hartford's budget crisis is this: you cannot run a city on the tax base of a suburb. The City of Hartford has less taxable property than our suburban neighbor, West Hartford. Half of our property is non-taxable, and property taxes are the only significant revenue stream we have at the local level.

That fundamental problem with our financial structure has been compounded by past decisions made to paper-over the lack of taxable property. They include heavy borrowing and restructuring of that borrowing that drove up long-term costs, labor agreements that are simply not sustainable, and one-time fixes, like selling City property, that are not repeatable.



LUKE A. BRONIN
MAYOR

The reality is this: there is no responsible solution to our budget gap this year with the traditional local tools of tax hikes and spending cuts. There is a limit to how much you can tax, and there is a limit to how much we can cut with our current contractual requirements. The budget we have adopted is a responsible budget, but it relies on sacrifices from our labor unions and a fundamentally new partnership between the State of Connecticut and its Capital City.

As we move forward, together, we will continue to be honest and direct about the choices we face, and we will do whatever is necessary to seize the opportunity to put Hartford on a path to sustainability, vibrancy, and growth.

Sincerely,

A handwritten signature in black ink, appearing to read "Luke A. Bronin", with a long horizontal flourish extending to the right.

Luke A. Bronin
Mayor

City of Hartford FY2018 Adopted Budget Executive Summary

FY2018 Adopted Budget Top Lines

The Mayor's Fiscal Year 2018 Adopted Budget (FY2018) retains the deep reductions that were made in the FY2017 Adopted Budget, includes new savings and reductions, and seeks to maintain funding for essential services like public safety and for care of the City's most vulnerable. The Adopted Budget represents an essential services-only budget.

The FY2017 Adopted Budget totaled \$552.9 million, relying on \$8.4 million in reserves, a \$5 million in-kind transfer of land to the pension fund, and \$16.5 million in sought-for labor savings. As a result of increases in legacy and fixed costs, as well as thus-far unachieved labor savings, the FY2018 Adopted Budget is \$612.9 million, an increase of \$59.9 million, or 11%, over last year. No new borrowing is included in the Adopted Budget.

	FY2017 Budget	FY2018 Forecast	FY2018 Adopted	Variance (\$)	Variance (%)
Revenues	544,547,285	564,057,531	563,289,178	18,741,893	3%
Total Expenditures	552,941,620	629,142,562	612,923,558	59,981,938	11%
Use of Fund Balance (FY2017)	8,394,335	0	0	(8,394,335)	
Total Gap	0	(65,085,031)	(49,634,380)	(49,634,380)	

Figure 1: FY2017 Adopted Budget, FY2018 Forecast & FY2018 Adopted Budget, Revenues and Expenditures

Components of the \$59.9M expenditure increase detailed in Figure 2 below include all mandatory spending on items such as payments on existing debt service.

Expenditures	\$ Change
Debt Service Payments	14,070,102
Change in Concessions Assumption	12,500,000
Health	5,117,436
Pension	5,118,188
Insurances / Other Benefits	(1,471,226)
Legal & Other	7,177,690
Education	1,207,044
Utilities	962,269
Payroll	740,833
Library (Health & Pension)	239,149
MHIS	(121,816)
TAN Repayment	14,442,269
Total Expenditures	59,981,938

Figure 2: Components of expenditure increase from FY2017 Adopted Budget to FY2018 Adopted Budget

Based on the increases in fixed or largely-fixed costs, as well as the current services budgets submitted by departments, the City began the budget development process with a projected gap of \$65.1 million. That gap has been reduced to \$49.6 million, comprised of a \$16.2 million decrease in expenditures, offset by a \$0.7 million decrease in revenues. The expenditure reduction of \$16.2 million represents citywide reductions of \$8.8 million, assumed employee concessions of \$4 million, a reduced estimate of FY2017 Tax Anticipation Note (TAN) requirements by \$2.6 million, and deferred department operational needs of \$0.8 million:

Citywide Reductions	8,833,161
Employee Concessions	4,000,000
Reductions to Department Requests	828,112
Reduced Estimate of TAN Requirements	2,557,731
Total Adjustments	16,219,004

Figure 3: Steps taken by City of Hartford to mitigate gap in FY2018 Adopted Budget

Citywide reductions from the proposed “current services” budget are comprised of the following:

MERF Actuarial Re-estimate (result of contract with firefighters)	1,592,511
Leased Space Reductions	2,400,000
Community-Based Organizations	831,955
Additional Police Attrition	606,385
Hartford Public Library (Budget increases funding for HPL, but does not fully fund the HPL request)	228,040
Dial A Ride/Senior Centers	44,000
School Crossing Guards (Cost assumed by BOE)	1,208,000
Vehicles & Equipment	459,663
Workers Compensation	150,000
Position Savings	800,323
Other	512,284
Total Reductions	8,833,161

Figure 4: Line items of citywide savings to close \$8.8 million of initial \$65.1 million budget gap in FY2018 Adopted Budget

Additional Detail on FY2018 Adopted Budget

After years of not recruiting police officers or firefighters, hiring new classes is an urgent priority. Failing to recruit police officers will further reduce the size of the already-small force, pushing up overtime costs. Similarly, the large number of anticipated retirements in the Fire Department risks increasing overtime costs without new hiring. The FY2018 Adopted Budget uses funded vacant positions for new police hiring, keeping the police budget flat. The Adopted Budget adds two classes of firefighters, one through funded vacant positions and one with new funding; it also includes a necessary investment in firefighter training.

The City traditionally provides funding for a number of emergency shelters for the region’s most vulnerable residents. That funding remains in this budget, with women’s shelters, No Freeze shelters, and the McKinney shelter for men all receiving continued funding.

For young people, spending on summer youth employment remains, as does funding for youth justice and crisis intervention. Similarly, recreational centers and the Hartford Public Library are fully funded at last year’s levels.

The budget for Health and Human Services increases 12.4% to adjust for higher relocation assistance costs. What appears to be a 118.2% increase in the Chief Operating Officer’s budget reflects the assumption of print-shop personnel from the now-eliminated Office of Communications and New Media. Similarly, what appears to be a 27% increase in the Mayor’s office reflects the transfer of three 311 Call Center positions out of MHIS as well as the transfer of one position, at a lower salary level, from the now-eliminated Office of Communications and New Media. Since FY2016, combined spending on the Office of the Mayor, 311 Call Center, and Office of Communications and New Media has been reduced by 47%.

The budget makes further reductions to certain community-based organizations, including the elimination of funding for Hartford Partnership for Student Success, Camp Courant, Greater Hartford Arts Council, Upper Albany Block by Block, Hartford Guides, Hartford Carousel Operations, Minority Construction Council, Journey Home, Connecticut Coalition for Environmental Justice, Hartford 2000, Greater Hartford Transit District and Business Improvement District.

How Does Hartford Propose to Bridge a \$49 Million Gap?

To bridge the gap of \$49.6 million, Hartford is seeking a new partnership with the State of Connecticut. Specifically, the City of Hartford is asking the State to fully fund Payments-in-lieu-of-Taxes (PILOT), recognizing that one half of the City’s property is tax-exempt.

If the State were to fully fund the existing PILOT formula, the City of Hartford would receive approximately \$50 million in new revenue from the State of Connecticut - putting the Adopted Budget in balance.

While full funding of the PILOT formula is appropriate and long-overdue, the State does not need to fully fund the PILOT formula to help Hartford achieve a sustainable solution. Because of the generous corporate commitment of \$10 million per year for five years - conditional upon a sustainable, comprehensive solution for Hartford’s fiscal challenges - the Adopted Budget requires \$39.6 million in new revenue from the State of Connecticut.

Why Can't the Budget Gap be Fixed by Hartford Alone?

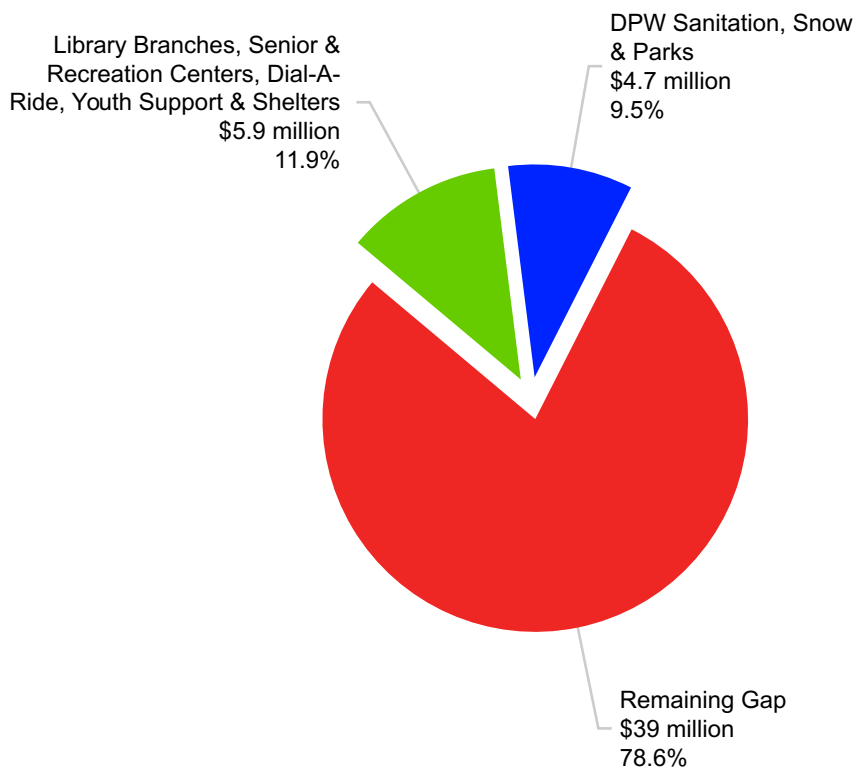
Without additional funding from the State of Connecticut, the City of Hartford cannot responsibly close the FY2018 budget gap of \$49.6 million.

In FY2017, the City of Hartford eliminated 100 positions, or 15% of non-uniformed personnel. Staff were reduced in nearly every City department. Special duty police positions, such as Community Service Officers and Business Service Officers, were redeployed to patrol. Funding for community-based programs was cut dramatically. The Department of Public Works has nearly 40 fewer staff this year compared to five years ago.

While the Adopted Budget includes additional cuts, the City of Hartford cannot responsibly reduce spending on public safety. The City also should not make additional cuts in core administrative services, such as finance, human resources, or tax collection - all of which were drastically reduced in FY2017. The City has no choice but to pay fixed costs, such as debt service and pension.

Closing all library branches, community recreational centers, senior centers, Dial-A-Ride, shelters for abused women and the homeless, and youth programs would be devastating to residents and would save only \$5.9 million, or 12% of the projected deficit. Similarly, the elimination of basic services like snow removal, trash collection, and park maintenance - all of which are vital to maintaining quality of life in the City of Hartford - would save only \$4.7 million, or less than 10% of the gap.

No city can achieve stability and health through such drastic cuts. And as demonstrated by the pie chart below, making the drastic and disastrous cuts described above would, together, address less than one quarter of the projected budget gap of \$49.6 million - while making it impossible to maintain the City of Hartford as an attractive home for residents or businesses.



In sum, the City of Hartford cannot close a \$49.6 million budget gap through cuts, without unjustifiable and disastrous consequences for public safety and for the city's future.

Nor can the City of Hartford close a \$49.6 million gap through increased taxes. After years of tax increases, small and mid-size businesses pay the highest tax rates in the state, and nearly double the taxes paid by businesses in our peer city, New Haven. To increase taxes further on Hartford's commercial properties would result in job losses and business closures.

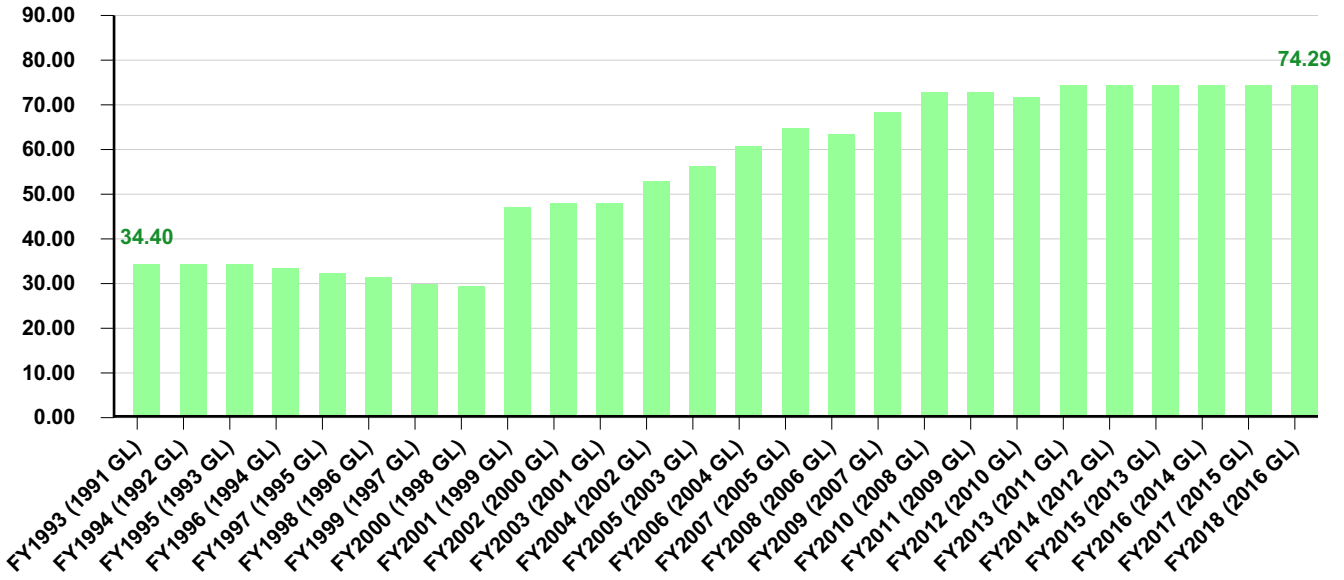


Figure 6: City of Hartford Mill Rate Increases, FY1995 to FY2018 Adopted

Why Is the City of Hartford Facing a Fiscal Crisis?

The root cause of Hartford’s financial problems is the fact that Hartford’s property tax base is simply too small to support even an essential level of municipal services. Half of Hartford’s properties are tax exempt - a percentage that has risen steadily over the past ten years, as Hartford’s taxes have increased.

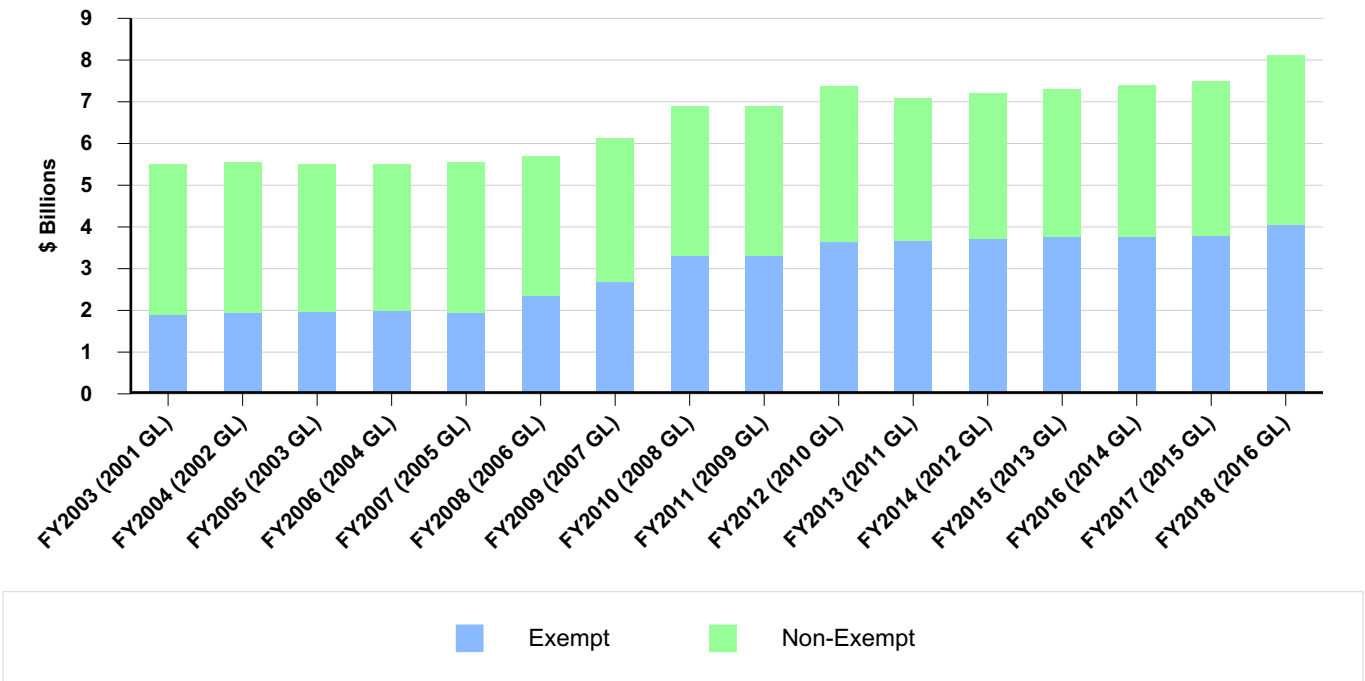
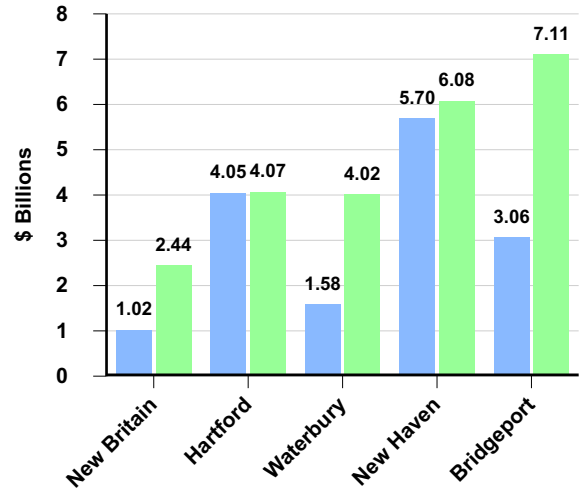
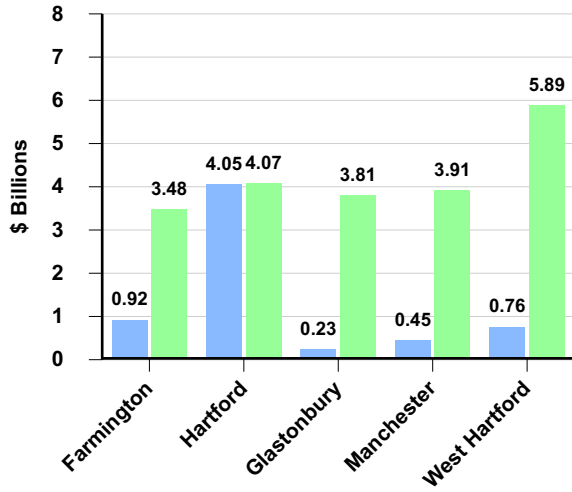


Figure 7: City of Hartford Grand List assessed values by exempt and non-exempt properties

More remarkably, the City of Hartford has less taxable property than its neighbor, West Hartford - and only slightly more taxable property than the small suburban communities of Farmington, Glastonbury, and Manchester. The comparison with Connecticut's other large urban centers is also dramatic, demonstrating that Hartford has a significantly smaller tax base than its peer cities - and faces a uniquely daunting structural challenge.



■ Tax Exempt ■ Taxable

■ Tax Exempt ■ Taxable

Figure 8: Comparison of Grand List Composition, City of Hartford and surrounding suburbs

Figure 9: Comparison of Grand List Composition, City of Hartford and urban peer municipalities

The bottom line is this: you can't run a City on the tax base of a suburb.

Why Is this Fiscal Crisis Different than Past Fiscal Challenges?

Restructuring debt, selling assets, and using reserve funds are tools any government can use as part of a sound financial management plan. They should not be used as last-minute, one-time solutions. Yet, running multi-million dollar deficits, closed again and again with "one-time" emergency measures, has been standard operating procedure in Hartford for many years.

For example, prior to 2016 the City of Hartford restructured its debt to provide short-term budget relief. As a result of that debt restructuring, the City's debt service will rise to nearly \$60 million in FY2019 - from only \$9.7 million in FY2015.

In addition, over the last several decades, the City has made promises on pensions, wages, healthcare, and other benefits that the small property tax base could never have supported. City workers have earned those benefits as part of contracts they negotiated, but that does not change the fact that Hartford made promises that are unsustainable.

But while some of those past decisions made today's fiscal crisis worse, the reality is that they were symptoms of the problem - not the root cause. If the City of Hartford did not have to pay a single dollar into the pension fund in FY2018, there would still be a deficit. If the City did not owe a single dollar of debt, there would still be a deficit.

The City of Hartford no longer has the option of closing its deficits through one-time measures. After years of ignoring or delaying the crisis, Hartford and the State of Connecticut must make the structural changes that are long overdue.

Why Should the State Care About Hartford's Fiscal Stability?

The economic health and strength of Connecticut depends upon a strong Capital City. Hartford is the economic engine of central Connecticut, with approximately 100,000 employees commuting to Hartford for work every day. The City is home to countless tax-exempt institutions that serve the entire region or the State. The table below details just some of the reasons why Hartford is so valuable to Connecticut - and why Hartford bears such a disproportionate burden.

Hartford's Contributions to the Region

- Approximately 100,000 commuters, employed by Hartford-based companies
- Hartford Hospital and St. Francis, which treat residents around the state, tax free
- Nationally-renowned arts and cultural institutions, serving the region and the state
- Sewage treatment and trash disposal facilities serving the entire region and the State
- Host to large concentration of tax-exempt State property
- Host to large number of non-profit agencies, serving the region and the state

If Hartford is unable to maintain basic services so vital to residents, businesses and visitors alike, the State of Connecticut will pay a steep price. Connecticut needs a strong Capital City.

Conclusion

The Adopted Budget for FY2018 funds basic city services, seeks to maintain public safety, continues making limited but necessary investments in youth engagement, and seeks to maintain a minimum level of support to our region's most vulnerable residents.

There are only two ways for a city to meet its budget needs: cut spending, or raise revenue. After deep cuts in FY2017 and additional cuts in the FY2018 Adopted Budget, Hartford cannot meaningfully cut spending without defaulting on its basic obligations to residents, and Hartford cannot impose a general, broad-based property tax increase without driving out residents and employers. Acting alone, Hartford has no road to a sustainable financial path.

Hartford's largest employers have already made a powerful statement about the importance of Hartford's fiscal health by committing \$10 million per year. That corporate commitment, however, depends on a sustainable, comprehensive solution. A sustainable, comprehensive solution requires a new partnership with the State of Connecticut.

If the State agrees to forge a responsible partnership with the City, the entire Hartford region will benefit from a more stable, stronger, and more vibrant Capital City.