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Public Hearing on the Mayor's Proposed Fiscal Year 2010-2011 Budget

**Finance Committee
Board of Aldermen
City of New Haven**

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Over the next two months you and your colleagues on the Board will be examining and eventually, in late May, voting on the mayor's proposed budget for Fiscal Year 2010-11. I appear before you tonight, as I did last year, to call your attention to certain aspects of the proposed budget and to urge that you examine them and consider whether the budget needs to be revised. I am concerned that, although the proposed budget indicates that the city's general fund expenditures in 2010-11 will be fully covered by its general fund revenues, in fact the city may incur a deficit of some unknown magnitude – possibly in the range of several million dollars.

I have found it helpful, both when I served on the Blue Ribbon Budget Review Panel last year and in previous years, to focus initially on the magnitude and direction of change for each category of revenues and expenditures between the amount approved by the Board for the current year and the amount proposed in the mayor's budget. Two tables are very useful in that regard – the table on pages 2-22 and 2-23 for the General Fund Revenue Budget and the table on page 2-16 for the General Fund Expenditure Budget. In both tables, the right-hand column indicates the magnitude and direction of change from the current level of spending the mayor proposes in FY 2010-11. In what follows, I will note some of the changes in revenues and expenditures that I think should be looked at and perhaps revised.

Revenues

Decrease in State Aid. Considering first revenues, the data in the table on pages 2-22 and 2-23 make it clear that, as expected, the city will receive substantially less from the state in 2010-11 than in the current year. State aid for school construction will decrease by \$622,000 and that for school transportation will decrease by \$880,000. In addition, PILOT payments for colleges and hospitals will decrease by \$3.6 million and Mashantucket Pequot Funds will decrease by \$3.6 million. (In addition, last year's budget included \$3.6 million from a presumed restoration of PILOT payments to FY 09 levels and unspecified municipal revenue options that doesn't appear in the 2010-11 budget.) In all, there will be \$12 million less in state aid in 2010-11.

Increase in Property Taxes. The loss in state aid will be more than made up by an increase in property taxes. The phase-in of the 2006 revaluation will be resumed and,

together with new additions to the Grand List, will cause the Grand List to increase 11.3 per cent. That will produce, with a mill rate of 41.21 (vs. 42.21 this year), an increase of \$17.1 million in current city taxes. However, because of a reduction of \$1 million in revenue from personal property tax initiatives, the net increase in property taxes will be \$16.1 million. I estimate the resumption of the phase-in of the revaluation, coupled with the reduction in the mill rate, will result in an increase in the tax paid by those owning residential property (and presumably renters as well, in the form of increased rents) in the range of 8-9 per cent.

Monetization of Parking Meter Revenues. The budget assumes the city will receive \$10 million in new revenue in 2010-11 as a result of an arrangement, currently being negotiated with Gates Capital Partners, in which Gates will receive the revenue from parking meters over the next five years and, in return, will pay the city \$10 million this year and some amount in the next four years. The funds will be used to create and fund a “Property Tax Stabilization Trust Fund,” all of which will be used to fund expenditures in 2010-11.

I urge you to examine this proposed arrangement very carefully. The budget notes that no dollar amount has yet been negotiated with Gates. If the arrangement is negotiated but with an initial payment of less than \$10 million, the budget will be in deficit by however much the payment falls short of \$10 million. If no arrangement is negotiated, that would of course turn an apparently-balanced budget into one with a \$10 million deficit. The budget provides no estimate of how much revenue is likely to be produced by the parking meters over the next five years, how much of the revenue Gates will receive, how much it will pay to the city in years 2-5, and how much Gates will make as a profit. There is, I should note, a perplexing entry under ‘licenses/permits/-services & fees’ on p. 2-22 that suggests that, notwithstanding the proposed arrangement with Gates, the city will take in \$5.2 million in 2010-11 – an increase of \$1.2 million – in traffic and parking/meter receipts.

The proposed arrangement appears to me to be an off-the-books loan – in essence, a mortgage - in which the city receives a substantial amount of revenue in 2010-11 (and some amount in the four years after that) in return for giving Gates the stream of revenues from parking meters in future years. I would urge caution in approving this and certainly would not approve it without knowing all of the relevant details.

Other Revenue. The breakdown of projected revenues on p. 2-23 indicates, under the category ‘other revenue,’ that the city received \$3.17 million from the sale of city assets (schools) in the current year but will sell no assets in 2010-11. That, however, is incorrect. At a later point in the budget, in describing the city’s debt service, it states that the city intends to sell surplus/unused property or a surplus school for \$3 million. The amount of debt service in the expenditure table on p. 2-16 takes that into account and thereby understates the amount of debt service by that amount. For the sake of year-to-year consistency, the sale of \$3 million should have been listed under ‘other revenue’ for 2010-11 and the debt service should have been listed in the expenditure budget on p. 2-16 as \$68.1 million, not \$65.1 million.

Finally, there are three items under ‘miscellaneous’ revenue on p. 2-23 that are perplexing and warrant some examination: a \$2 million increase in a ‘voluntary PILOT’ that will be paid the city by the New Haven Parking Authority, a \$600,000 reduction in the GNHWPCA ‘PILOT,’ and a new source of \$800,000 from BABS that, as far as I can tell, is not described in the budget.

Expenditures

Employee Benefits. The table on p. 2-16 entitled General Fund Expenditure Budget allows one to compare the magnitude and direction of change in the various spending categories between the amount approved for the current year (column 2) and the mayor’s proposed budget for 2010-11 (column 4). That difference appears in the last column. The magnitude and direction of change in many of the categories raises questions. The largest increase is the \$8 million in medical benefits. Such benefits will cost \$59.6 million in 2010-11. The budget estimates that \$34.5 million will be spent on pensions, \$10.2 million on workers compensation, and \$6.1 million. In all, the amount spent on those four benefit categories will exceed \$110 million and will increase in 2010-11 by \$12.5 million. Clearly, the city must figure out a way to rein in those expenses, especially medical benefits which are projected to increase by more than 15 per cent in 2010-11. That will not be easy. But it has to be done.

Debt Service. If the largest, and from the longer-term perspective most problematic, increase in spending involves medical and other employee benefits, the amount that will have to be spent servicing the debt is also of considerable concern. As noted above, the amount for debt service indicated in the table on p 2-16 actually understates the amount by \$3 million. If the projected \$3 million from the sale of city assets is entered separately as revenue, the total debt service in 2010-11 would be \$68.1 million rather than \$65.1 million and the increase in debt service would be \$5.9 million rather than \$2.9 million. The amount of debt suggests the city has been living beyond its means for some time. Largely the result of the massive school construction program, debt service should diminish in future years as the debt from that program gets paid down. But it is still very large and should make you wary about taking on additional debt as you examine the capital budget.

Innovation Based Budgeting. Certainly the most problematic entry in the table on p. 2-16 that breaks down the General Fund Expenditure Budget is the last entry, # 999, Innovation Budget. According to the budget, IBB will identify possible gains in productivity, cost savings, and revenue gains and will result in \$8 million in increased revenue or decreased expenses in 2010-11. The budget states the \$8 million will be obtained by document management (using less paper), electronic printing, a storm waste authority that can allocate costs to all users, a reduction in liability, targeted privatization, strategic partnerships, more hiring of emergency medical personnel and medical billing, Board of Education savings, reuse of the Goffe St. Armory, and government reorganization. There is no discussion of how each of those will be achieved and how much additional revenue or reduced spending will result from each. And there is no explanation why, in order to achieve the \$8 million in deficit reduction, the city is bring

four new full-time employees, at a cost of \$254,000, rather than relying on currently-employed personnel.

As it is described in the budget, Innovation Based Budgeting strikes me as little more than wishful thinking. It is very hard to imagine that it will result in \$8 million in increased revenues or decreased spending in 2010-11. And as with the parking meter arrangement, to the extent that the deficit reduction resulting from IBB falls short of \$8 million, the result will be a deficit. It is quite possible IBB will produce no more than a amount of deficit reduction and leave the city with a deficit of several million dollars. I urge you to insist that the administration provide additional relevant information to support its claim that IBB will result in \$8 million in deficit reduction in 2010-11.

Public Safety Communications. Aside from employee benefits and the corrected figure for debt service, the largest increase in spending in 2010-11 – \$3.5 million – will be for Public Safety Communications. This department comprises the civilian dispatchers who formerly appeared on the police and fire department budgets. It appears there are 53 employees, 15 of whom were transferred from fire and 35 from police. Having a fully-staffed and competent dispatch unit is, of course, absolutely necessary. Whether it requires, after consolidation, even more employees than were required when the operations were separated and in the two departments is something you may wish to consider.

Contract Reserve Fund. The table on p. 2-16 with the breakdown of General Fund expenditures contains an entry for ‘contract reserve fund’ that indicates a reduction in spending of \$1 million. At a later point in the budget, we are told this represents assumed savings that will result from pending contract negotiations with four bargaining units. The budget does not identify the bargaining units or provide any basis for evaluating whether those savings will in fact be realized. To the extent they are not realized, the city will incur a deficit.

Education. The table on p. 2-16 indicates that spending for education will increase by \$3 million, to \$176 million. While the percentage increase is quite modest (1.7 per cent), this is a large figure and deserves some scrutiny by you. As you know, the Charter greatly limits the extent to which the Board of Aldermen can amend the Board of Education’s budget. Indeed, you and your colleagues can only approve or reject the overall amount requested by the Board of Education. But you certainly are free to examine in detail the Board of Education’s budget prior to voting to accept or reject its request and I urge you to do that.