

CITY OF NEW HAVEN
OFFICE OF MANAGEMENT & BUDGET

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October 1, 2007

Alderman Carl Goldfield
Board of Aldermen
City of New Haven
165 Church Street
New Haven, CT 06510

Dear Alderman Goldfield:

In response to Policy Amendment #3 of the FY 2007-08 Budget, the Administration was to prepare a report providing proposals for cost containment and revenue enhancement in various operational areas of City Government.

Attached is a report of initiatives in several of those areas, including the following:

- I. Energy Procurement
- II. Energy Conservation
- III. Health Benefits
- IV. Pensions
- V. Transfer Station

The Report provides a background discussion, analysis and report on either actions taken or initiatives to be considered going forward for each of the areas indicated above.

We look forward to an opportunity to discuss these areas with you.

Respectfully submitted,

Lawrence D. Rusconi
Budget Director

Attachment

cc: Board of Aldermen

ACTION REPORT FY 2007-08 BUDGET INITIATIVES

I. ENERGY PROCUREMENT INITIATIVE

A. BACKGROUND:

- RFP process completed in Fall of 2006.
- Two (2) Energy Firms pre-qualified.
- Source One hired as our Energy Consultant to assist in negotiating rates for the period January 1, 2007 to June 30, 2008.
- Contract awarded and executed with Constellation New Energy (“CNE”) in November 2006 to provide electric services to the City for an 18 month period beginning January, 2007.
- All City and Board of Education electricity accounts enrolled.
- Board of Aldermen Policy Amendment No. 2 to the FY 2007-08 budgeted authorized the Energy Procurement Committee to continue to work to solicit natural gas and electric utility rates that are in the best interest to the City, for the period July 1, 2007 to June 30, 2008.

B. RESULTS:

- Source One has reported the City is saving approximately \$180,000 per month since we started (i.e. for final six months of FY 2006-07 we saved over \$1 million). Estimated savings for FY 2007-08 anticipated to be at least \$2 million (more than \$2 million if additional rate increases are approved by DPUC for United Illuminating).

C. CURRENT AND FUTURE INITIATIVES:

- Currently, Source One continues to monitor and analyze existing market rates to determine if we should strike and execute a new contract.
- The City and its consultants are conducting an internal audit of all billed United Illuminating (“U.I.”) accounts to ensure all accounts are included in the CNE contract.
- Going forward, we may need to assess viability of pre-qualifying other potential suppliers such as Con Ed Solutions, World Energy and others. The Connecticut marketplace has expanded since the procurement process began in 2006. If it is decided to go that route, we would need to initiate a new RFP process to qualify, pre-negotiate the terms, as well as seek Aldermanic approval to enter into a new long-term contract with the new suppliers and seek competitive pricing.

II. ENERGY CONSERVATION INITIATIVE

A. BACKGROUND

- Since 1997, when the City initiated its Comprehensive Energy Conservation Plan, the program has reduced energy and maintenance costs in the aggregate by approximately \$28.84 million. The goal of the original plan was to further offset increased consumption and cost by an additional \$12 million by 2010. Through 2006, the program has achieved the following results:

INVESTMENTS, SAVINGS, OTHER ACHEIVMENTS AND GOALS

Energy Investments to Date

Board of Education Performance Contract	\$8.36 Million
Elm/State Street Tunnel Improvements	\$0.49 Million
Crown Street Parking Garage	\$0.25 Million
Temple Street Parking Garage	\$0.36 Million
Street Lighting System Management & System Upgrades	\$8.0 Million
Traffic Lighting System Improvements	\$2.78 Million
City-Wide Energy Conservation Investments	\$1.69 Million
Total Energy Investments to Date	\$17.67 Million
Savings in Excess in Investments	\$11.17 Million
Energy & Maintenance Savings to Date	\$28.84 Million

Other Achievements to Date

Utility Company Awards	\$1.15 Million
Federal and State Grants Received	\$2.52 Million
Environmental Pollution Reduction	74 Million Pounds CO ₂ , NO _X , SO ₂ *
Other Recognition	CT DEP Green Circle Awards

Future Goals by Fiscal Year 2010

Additional Energy and Maintenance Cost Savings	\$12.0 Million
Additional Utility Company Rebates	\$2.5 Million
Additional Energy Investments	\$5.0 Million
Add. Environmental Pollution Reductions	26 Million Pounds CO ₂ , NO _X , SO ₂ *

*CO₂ - Carbon Dioxide, NO_X – Nitrous Oxide, SO₂ – Sulfur Dioxide

B. INVESTMENTS TO PRODUCE ENERGY & COST SAVINGS

- By the end of 2006, the City had invested nearly \$18 million in energy reduction improvements which have resulted in \$28.84 million of avoided utility and maintenance costs. The following summarizes the most significant energy saving investments made by the City.

Board of Education Performance Contract (Nine-year Program)

- \$6.1 million of leased improvements.
- \$250,000 in utility rebates to offset capital cost.
- \$8.64 million in energy, maintenance, parts and labor cost saved to date.
- \$8.8 million savings guaranteed over the nine-year program.
- \$8.64 million saved to date over eight years.

- Board of Education Energy Conservation Program*

- Total saved to date: \$2.33 million.
- One time savings of \$0.8 million.

Annual recurring savings: \$0.4 million.

II. ENERGY CONSERVATION (CONTINUED)

- *Crown Street Parking Garage Lighting Improvements*
 - \$61,600 in leased capital improvements.
 - \$63,000 in utility rebates to offset capital cost.
 - \$0.25 million in energy and maintenance savings to date.
- *Traffic Lamp Changeover to Light Emitting Diode (LED)*
 - \$780,000 bonded capital cost.
 - \$240,000 grant from DOT.
 - \$180,000 in utility rebates to offset capital cost.
 - \$2.78 million in energy and maintenance savings to date.
- *State/Elm Street Tunnel Lighting and Ventilation Improvements*
 - \$241,500 from operating budget capital cost.
 - \$113,000 utility rebates to offset capital cost.
 - \$0.49 million in energy and maintenance savings to date.
- *Temple Street Garage Lighting Improvements*
 - \$150,000 in bonded lighting improvements.
 - \$54,000 in utility rebates to offset capital cost.
 - \$0.36 million in energy and maintenance savings to date.
- *Street Lighting Management*

The City of New Haven owns and operates its own street lighting system. Under the direction of a professional manager and maintenance organization, it is estimated that \$8.0 million in energy and maintenance costs are saved each year when compared to the traditional method of leasing the streetlights from the local utility.
- *New Haven Water Pollution Control Authority Fuel Cell*

This investment was made with the assistance of a \$2.4 million dollar grant from the Connecticut Clean Energy Fund. Electric power that is generated by the fuel cell offsets electric power consumption from the grid, and hot water by-product from the fuel cell offsets electric power previously used to process fats, oils, and grease (FOG) at the wastewater treatment plant.

 - \$2.4 million capital cost granted from Connecticut Clean Energy Fund (CCEF).
 - \$75,229 energy savings to date.
 - \$1.9 million pounds per year of emissions reductions in New Haven.
- *City Wide Energy Conservation Investments*

This group of investments included real-time monitoring of electrical power consumption, as well as demand monitoring. Improvements included lighting upgrades, dimmable lighting, vending machine controls and demand management at over 92 facilities.

 - \$5.85 million leased capital improvements.
 - \$138,000 in utility rebates to offset capital cost.
 - \$1.69 million in energy and maintenance savings to date.

Note: New energy numbers as of June 30, 2007 are being compiled and will represent a significant increase beyond the \$28.84m explained above.

C. CURRENT AND FUTURE INITIATIVES

- As part of the City's comprehensive school construction program (including nearly 50 renovated/new school facilities), each school has been designed and built to exceed Building

Code Standards for minimum energy consumption. In addition, each school is designed with additional energy saving features to further reduce energy use and cost.

II. ENERGY CONSERVATION (CONTINUED)

CURRENT AND FUTURE INITIATIVES (Continued)

- Key challenges going forward will be finding and sustaining the means to maintain facilities so they continue to operate at peak efficiency. The Administration looks to engage the Board of Aldermen to continue to support existing efforts and to expand this further on the General Government (Non-Education) side of our operations.
- In FY 2007-08, the Board of Aldermen approved \$2.5 million for the Energy Conservation Program. These Funds are to be used to upgrade City buildings in need of new energy conservation technology, particularly in the area of HVAC and electrical systems.
- This summer, the City has developed detailed specifications and an RFP to replace the HVAC systems in place at the Main Library facility. A contract is anticipated to be awarded shortly.
- Van Zelm Engineering is currently reviewing HVAC systems used at the Government Center Complex and Hall of Records. We anticipate developing detailed specifications and RFP in the Fall and entering into a contract by the end of 2007.
- The following City Facilities are also being evaluated by Engineering Staff to determine the systems to be upgraded or replaced to improve efficiency:

Fire Department Headquarters
Fire Department - 525 Howard Ave.
Fire Department - 412 Lombard St.
Fire Department -125 Goffe St.
Fire Department – 73 Grand Ave.
Fire Department – 346 Whitney Ave.
Fire Department – 105 Fountain St.
Fire Training Facility – 230 Ella Grasso Blvd.
Police Repair Facility
Public Works Dept. – 34 Middletown Ave.
Free Public Library – Ives Branch
Free Public Library – Stetson Branch
Free Public Library – Fair Haven Branch

- The City looks to the Board of Aldermen to sustain its support for making these types of investments going forward. Our energy costs can only be contained if there is continued investment in new technologies and by taking full advantage of all grant and UI Energy Rebates.

III. HEALTH BENEFITS

A. BACKGROUND

- As indicated in the chart below, medical benefit costs have risen 43% since FY 2001-02. The number of contracts (employees and retirees) actually decreased over this same period from 5,889 in FY 2001-02, and to 5,646 in FY 2006-07. During this period, the City negotiated and implemented plan design changes and was successful in seeing a migration of employees from the more costly Century Preferred plan to the less expensive BlueCare product. In FY 01-02,

81% of all employees/retirees were enrolled in Century Preferred and only 19% in BlueCare. In FY 07-08 it is now a 50% /50% split. Despite these initiatives, costs still increased by 43%.

- In 2006, the City issued an RFP to implement an Employee Wellness Program and a contract was awarded to St. Raphael’s Occupational Health to implement the program.
- We have conducted outreach to employees working in City Hall, Library, Parks, Public Works, Board of Education (Administration) and Health Department. We have conducted nutrition, stress reduction and ergonomic seminars at various City locations and we recently concluded a 4-week walking program. This program will be expanded to the Board of Education in September and soon after to the Fire and Police Departments.

B. RESULTS/CURRENT STATUS

- Negotiated renewal with Anthem with the assistance of our independent medical benefit consultant.
- The City went out to bid for Stop/Loss Insurance. Upon analysis, we decided not to proceed with stop/loss as the premiums to be charged were determined to be excessive and not cost effective for us to proceed.
- However, during the process of negotiating our renewal fees cited above, we successfully negotiated with Anthem for them to provide an aggregated specific stop/loss at no additional cost to the City.
- Anthem has also agreed to provide Medicare Part D subsidy assistance including attestation, claim submission and application. In addition, they have offered to incorporate a “Vascular at Risk” wellness program; which will complement the wellness program with St. Raphael.

C. FUTURE INITIATIVES

- Going forward, the City will need to integrate the Wellness Program provided by St. Raphael’s with the Anthem initiative. The key to success with these programs is to provide incentives to encourage employee participation. How best to accomplish this is unclear at this time.
- From a Labor Relations perspective, savings can only be achieved with plan design or increases in cost share amounts. This can be accomplished through collective bargaining. Negotiations begin next in January 2008 with Local #530.
- Sick leave is a related issue which is now being reviewed and analyzed with both Coordinators and Department Heads on a monthly basis.
- Regarding Municipal Employees Health Insurance Program (“MEHIP”), there were a host of issues associated with the failed legislation this past session. The failed bill was too all encompassing and would have removed us from exerting any local control or intervention. It also did not address the retention issue or any OPEB liability. At this time, it is uncertain to conclude we would save any money from entry into MEHIP.

**MEDICAL BENEFIT COST REVIEW
JULY- JUNE 2006/07
BY EXPENSE CATEGORY**

	FY 01-02	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07	+/- Fy 06 v Fy 07	% Fy 06 v Fy 07
VISION	338,683	315,166	258,315	262,388	409,509	384,810	-24,699	-6%
MAJOR MEDICAL	407,758	449,029	514,425	503,310	489,868	293,671	-196,197	-40%
MEDICARE	1,200,365	1,372,983	1,514,408	1,682,954	1,841,227	1,889,789	48,562	3%

SUPPLEMENTAL								
ADMINISTRATIVE WELLNESS - ST. RAPHAELS	2,737,188	2,918,865	3,116,971	3,193,612	3,193,747	3,280,994	87,247	3%
MERCER MEDICARE PART D	-	-	-	-	-	28,265	28,265	N/A
BANC OF AMERICA - MCGARVEY	-	-	-	-	-	11,500	11,500	N/A
DENTAL	3,372,513	3,514,878	3,825,893	4,202,930	4,396,740	4,176,965	-219,775	-5%
DRUGS	4,791,209	5,325,321	6,111,184	7,170,784	8,306,498	9,143,750	837,252	10%
MEDICAL	32,244,781	33,561,236	37,032,337	39,465,598	44,452,317	45,395,582	943,265	2%
	45,092,497	47,457,478	52,373,533	56,481,576	63,089,907	64,666,026	1,576,119	2.50%

MEDICAL COSTS	CP					
	FY 01-02	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07
JULY	2,268,604	2,330,565	2,338,654	2,040,300	2,263,756	1,624,741
AUG	2,767,623	2,438,817	2,096,903	2,081,431	2,366,365	2,190,576
SEPT	2,090,947	2,064,865	2,178,082	1,925,415	2,408,344	1,889,072
OCT	2,056,477	2,223,432	2,549,281	1,854,054	2,079,883	1,796,038
NOV	1,914,954	2,117,864	1,467,694	2,018,080	2,165,700	1,793,675
DEC	2,041,024	2,117,908	2,195,527	2,224,420	2,157,495	1,785,854
JAN	2,243,941	2,328,243	1,981,258	2,057,748	2,023,015	2,142,839
FEB	2,142,060	2,047,085	1,712,510	1,854,565	1,865,169	1,568,521
MARCH	2,504,536	2,608,314	2,378,714	2,312,115	2,589,051	1,973,605
APRIL	2,374,832	2,481,032	2,431,117	1,753,172	1,926,922	1,882,616
MAY	2,327,088	2,436,426	2,010,936	1,906,487	2,193,021	1,796,832
JUNE	2,272,937	2,377,816	2,300,546	2,277,778	2,344,744	1,557,317
	27,005,024	27,572,368	25,641,222	24,305,565	26,383,465	22,001,684
Dollar Increase/(decrease)						-4,381,781
% Increase						-18%
PER CAPITA	470	483	580	652	748	775
% INCREASE						4%

MEDICAL COSTS	BLUECARE					
	FY 01-02	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07
JULY	425,404	462,416	919,002	1,148,715	1,178,112	1,635,572
AUG	479,377	460,123	637,529	1,218,895	1,751,508	2,049,350
SEPT	314,736	407,343	677,235	1,182,515	1,427,963	1,900,744
OCT	376,134	583,699	897,099	1,131,320	1,637,354	1,920,223
NOV	402,578	351,660	761,958	987,230	1,378,120	1,653,710
DEC	400,213	403,495	910,453	1,187,781	1,311,008	1,723,510
JAN	320,878	513,719	878,643	1,325,786	1,222,984	2,163,620
FEB	281,182	367,672	805,719	1,217,040	1,291,014	1,790,788
MARCH	460,953	543,187	1,124,942	1,505,950	1,536,019	2,058,883
APRIL	386,717	601,640	912,259	1,229,058	1,496,459	2,069,232
MAY	548,530	481,337	866,051	1,411,368	1,866,246	2,170,761
JUNE	416,364	479,750	976,886	1,407,155	1,665,759	1,993,765
	4,813,064	5,656,042	10,367,775	14,952,813	17,762,547	23,130,158
Dollar Increase/(decrease)						5,367,611
% Increase						30%

PER CAPITA	404	462	433	489	538	601
% INCREASE						12%

MEDICAL COSTS	INDEMNITY					
	FY 01-02	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07
JULY	18,419	12,083	213,701	12,204	27,095	25,628
AUG	35,473	24,772	44,316	35,837	22,725	23,514
SEPT	69,211	9,531	8,853	34,486	20,515	30,491
OCT	28,634	24,564	181,877	3,900	83,607	32,817
NOV	23,451	15,693	17,700	58,861	14,666	8,751
DEC	6,850	35,691	16,564	6,364	14,344	45,667
JAN	25,015	72,047	316,149	43,789	25,228	13,796
FEB	12,136	19,686	23,717	58,262	31,342	35,566
MARCH	60,696	18,637	34,948	60,342	-14,219	12,228
APRIL	22,760	16,546	64,940	22,500	11,153	15,904
MAY	91,853	50,849	53,880	28,807	14,621	5,148
JUNE	32,194	32,728	46,696	23,939	55,228	
	302,644	249,250	922,765	336,545	236,455	244,361
Dollar Increase/(decrease)						7,906
% Increase						3%
PER CAPITA	333	286	949	394	340	306
% INCREASE						-10%

DEFINITIONS

MEDICAL COST = CENTURY PREFERRED, BLUECARE AND INDEMNITY
 DRUG COST = CENTURY PREFERRED DRUG AND BLUECARE DRUG

IV. PENSION ISSUES

A. BACKGROUND

- Issue: Currently the City is paying approximately 20-24% of payroll into the CERF plan for its general fund employees. This equates to approximately \$9.3 million dollars going into the plan. The plan currently has a formula that allows employees to retire with a defined benefit based on years of service. The first 20 years an employee is in the fund the multiplier is 2% per year; for years of service 21-30 the multiplier is 3%. There is no additional benefit for any years worked beyond 30. As such, when an employee reaches 20 years of service he/she is eligible for a pension of 40%; the maximum an employee may currently achieve is 70%. Employees currently contribute about 6% of pay for this plan.
- The plan requires that before an employee is eligible to collect he/she must either work 25 years of service, reach the rule of 80 (combination age/years of service) or work for 20 years and have a service connected disability. Additionally, an employee may sell back up to five years sick time for service credit. Each year costs 30 sick days.

B. ANALYSIS

- Since 1994, the City has funded the pension plan at 100% or greater of the actuarial recommended amount. The following financial tables explain the important financial information that needs to be reviewed when considering this issue:

CERF FUNDING RATIO:

FISCAL YEAR	FUNDED RATIO FOR CERF
1994	69.3%
1995	69.5%
1996	72.6%
1997	77.4%
1998	85.6%
1999	85.3%
2000	81.2%
2001	78.9%
2002	70.1%
2003	66.7%
2004	63.3%
2005	61.9%

CITY CONTRIBUTIONS TO CERF:

FISCAL YEAR	REQUIRED CONTRIBUTION	PERCENTAGE CONTRIBUTION	ACTUAL CONTRIBUTION
1997	\$ 4,453,000	105%	\$ 4,670,621
1998	\$ 4,893,000	100%	\$ 4,893,000
1999	\$ 4,942,000	100%	\$ 4,942,000
2000	\$ 3,938,000	104%	\$ 4,105,976
2001	\$ 4,646,751	100%	\$ 4,646,751
2002	\$ 5,484,073	100%	\$ 5,484,073
2003	\$ 6,071,288	100%	\$ 6,071,288
2004	\$ 7,408,604	100%	\$ 7,408,604
2005	\$ 7,407,549	100%	\$ 7,407,549
2006	\$ 9,254,000	100%	\$ 9,254,000

IV. PENSION ISSUES (CONTINUED)

- The CERF fund currently has \$188,716,779 in net assets. However, the total contribution for CERF for the fiscal year ending June 30, 2006 was \$12,434,884 (combined employer/employee contributions). The total expenditures for the plan for fiscal year ending June 30, 2006 were \$19,945,223. The City had investment income (after investment costs) of \$13,037,251.
- Based on this information, the City is in the position of needing to rely on investment income to survive. As the City's budget continues to get tighter and hiring of new employees is restricted, the workforce average age continues to increase and the plan will need to rely more heavily on investment income. However, should investments drop the City will be responsible for any additional costs because an employees contribution is locked in for the entire contract period. Additionally, it should be noted that despite the continued funding at 100% of the actuarial amount the funded ratio has decreased.

C. OPTIONS:

- The City has essentially three options;
 - a.) Remain on the current path with the CERF plan in place and continue to pay as any defined benefit plan requires. Since 1994, the City has chosen to contribute at a minimum of 100% of the actuarial amount recommended.
 - b.) The City can request a transition to MERF. MERF is similar to the Teacher's Retirement Plan in that it is a defined benefit plan that is administered by the State of Connecticut. Like the teachers plan, MERF requires the City to make a contribution (currently approximately 8% of payroll for these employees with MERF). MERF can be accomplished by either moving the entire work force over to the plan, in which case the City would be required to make a very large contribution to the Plan or requiring new employees to go into the plan with existing employees remaining in the current plan. The downside is that MERF, is solely responsible for determining the contribution amount required by its members and members do not have the option of not making the required contributions. This plan is not subject to collective bargaining. However, it is not a plan that the executive branch can exercise. In order to become a member of MERF a vote of the legislative body is required.
 - c.) The third option is a defined contribution pension plan. These plans have several factors to consider. On the plus side, the City contributes a specific amount into an individual account and the employee contributes a specific amount. The City has no further liability after its contribution. Like MERF, this option requires the City to make its portion of the contribution. The City's contribution would be a fixed amount and generally much lower than what the City is currently paying. Additionally, the money is transportable. This means that the account owner can take the money to any employer and retain control of the dollars. The disadvantage of this type of plan is that the employee assumes the risk of investment loss and should the employee not have invested wisely there could be very little income for an employee at retirement. The City would provide educational classes to employees so that employees would be aware of the risk associated with their plan choice. The city would also require that vendors provide sufficient plan choices for employees. This problem can be limited, however, in its plan design. Unlike a traditional defined benefit plan where an employee is not allowed to make any withdrawals, defined contributions allow for loans and hardship withdrawals. A plan design could and should eliminate withdrawal when this type of plan is the sole source of retirement.

D. CONCLUSION:

- Most private employers have moved to a defined contribution type plan coupled with social security. The Public Sector has been much slower in making that transition. However, that is changing in Connecticut. A number of surrounding towns are already in MERF (Hamden, Bridgeport) and some towns have recently won a defined contribution plan in binding arbitration (Manchester and North Haven). A large factor that current employees consider when making job choices is the pension plans. The more transportable the plans the more options that gives employees and the City in making employment decisions. The City is currently in binding arbitration with Local 3144 as it pertains to pensions and is attempting to put into place a defined contribution type plan for all new hires.