COMMENTS AT FINANCE COMMITTEE MEETING 10/18/2007

1. ENERGY PROCUREMENT INITIATIVE

- $180,000 a month in savings is commendable and looks like good work.
- $ 2 Million anticipated for 2007-8 continues the above savings. 0.4 off the mil rate?
- What percentage of current total energy expenses does this savings represent?
- What is the contract price for the energy procured? -- Cents/kwh or $/BTU, etc.

2. ENERGY CONSERVATION INITIATIVE

- Energy and maintenance cost reduction is $28.84 Million for prior 10 years.
- What percent of annual base consumption does this represent?
- What are the current levels of energy use for key City uses – BOE, City traffic, City lighting -- expressed in kwh of consumption or kwh/square feet of heating/cooling load? How does this figure breakdown by various types of energy uses -- schools, offices, city lighting, etc.?? What are the benchmarks for such consumption – Yale U, Yale NNHH, Bank offices, mpg for the City fleet?
- What does the 2010 energy reduction goals look like in terms of percentage reduction in energy used per square feet? Breakdown by major use categories.
- What is the rate of return on the investments made for energy conservation? What is the hurdle rate?
- Compare the energy consumption profile – kwh or BTU's per square foot – for the newly constructed/designed schools versus the schools they will replace?

3. HEALTH BENEFITS

- Lots of data, not as much information
- "…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**…" The data presented does not support this statement. In FY 2001-2 Blue Care **cost per capita** was **76% of CP** with only 19% of employees enrolled ($4,300 vs $5,661). Yet by FY 2006-7 Blue Care cost per capita **was 5.1% higher** than CP with 50% of employees enrolled. How does this justify continued migration of employees to Blue Care?? Blue Care costs per capita seem to have increased **by 97% between 2001 and 2006. See attached.**
- Health costs increased 43% since 2001-2. What is this in terms of $/covered employee/retiree? What is the ratio of retirees to employees? How much of this increase is due to price inflation and how much due to enhanced coverages? How do these numbers compare with similar public and private organizations? Yale, Yale NH, ST. Raphael's ? What does OMB project for the ratio of retirees to employees in future?
- "…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." What are the City's contract objectives in these negotiations?? What plan design changes are contemplated? What benchmarks will be used?

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4. PENSION ISSUES

- Summary CERF data for **YE 2006**. CERF Assets are now $188.716 million.
  - City Contributions 18% of pay $ 9.3 Million
  - Employee Contributions – 6% of pay $ 3.1 Million
  - Total Contributions $12.4 Million
  - Total expenditures $19.9 Million
  - Shortfall $ 7.5 Million
  - Net Investment Income 6.9% of Assets $13.0 Million
  - YE 2006 Asset growth $ 5.5 Million
  - YE 2006 Liability growth???
- While our asset base increased by $5.5 million, this amount pales when compared to the growth in our liabilities, due to employees earning additional benefits, and previously promised benefits moving closer in time to when it must be paid. I have not been able to track this number. I hope the Board will seek an analysis of past and future liabilities in both the CERF and P&F for clues as to corrective action.
- As pointed out by the Budget Director and others, CERF fund paid out more than it took in during 2006, and used investment income to make up the difference. It is clear that the City will need to rely on investment income in the future to pay Pension obligations. As retirees begin to represent a bigger share of fund participants – currently at 48% -- as new hiring is limited and as the workforce ages this reliance can only increase. Gains from the strong investment climate of the past few years cannot be expected to bail out the fund in future and may even become a drain on assets.
- But let us maintain our focus on the liability side of the CERF Balance sheet. Since 1994, the City has funded the pension plan at 100% of the actuarial recommended amount. Despite this, the funded ratio reported was 61.9% for 2005, meaning that 38.1% of CERF obligations/liabilities are not funded. The funded ratio was 85.6% in 1998 and was last reported at 65.9%. (My own calculations that do not use any smoothing algorithms suggest this figure was closer to 61.6% in 2007 based on $221 million in fund assets. The net present value deficit for CERF is now $138 million using an 8.5% discounting of future liabilities. (AT 7% discount this figure becomes $224 million)
- For the Police & Firemen's Pension Fund, the picture is even more bleak. An honest market value look at the assets and liabilities today produces a present value deficit in excess of $200 million ($320 million if 7% discount is used) Together the two funds have a **net present value deficit of $342 million** or almost double the City's entire tax capacity.
- Pensions are an important part of recruiting police and firemen, yet I would be hard pressed to find other entities that contribute so generously – 18% of salary for CERF –to the employees pension fund. When over a thousand people apply for New Haven fire fighting positions can it still be argued that the employment package is not competitive? If we continue down this path there will be NO money to recruit anyone in the future, least of all the new Police that this administration has argued we need.

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- WE may need a reduction in force to balance our books. Perhaps we can discuss the effective deployment of our expensively trained Police Force another day.
- So the key questions I think this committee should be addressing are:
  - Why have our liabilities grown by so much?
  - Do our contracts incent our workers to do things that pad their pensions? What are the long term ramifications of our provisions on overtime, sick leave, and buybacks? Where is the analysis of this?
  - With our pensions in such precarious shape, how can we not afford to switch to a Defined Contribution Pension Plan? How can we look new employees in the eye and promise them pensions payments when they retire after they have given their life in service to the city?

- What does the Budget Director recommend to the Finance Committee regarding a transition to a Defined Contribution Plan? What does each month of analysis paralysis cost the City?
- Lastly, I know that this committee will be considering healthcare later, but I believe that we must consider our promises to retirees regarding healthcare as we look at our pensions. According to this year's audits, the city spent around $25 million on retiree health care. That represents an unfunded liability of nearly $300 million. Because health care costs are rising faster than inflation, that liability will grow even faster than the pension liabilities. I need say no more as to why it is imperative that the city do something about this.

5. ACTION ITEMS FROM BUDGET DIRECTOR'S LETTER

- Request from the Budget Director an analysis of both the CERF and P&F fund liabilities by year – past and future – and the impact on the net present deficit. See proposed Excel format
- Project the budget impact of the existing Retiree Health Care Plan, using alternative health care inflation assumptions.
- Prepare a pro-forma budget for 2008-12 using existing payroll, pension and health care commitments, existing school and other capital projects under various inflation assumptions and State contributions. Consider potential surprises for capital or other expenses authorized for which State contributions are debatable. Include all tax and fee receipts, new debt financing, etc., necessary to balance budgets going forward
- Detailed analysis of contract issues and City's financial requirements to address budget shortfalls, if any, that the above pro-forma may reveal.
- My preliminary analysis of Health care costs suggest that Blue Care now costs $8,494 per covered employee, have grown 97% in 5 years and now cost about 5% more per covered employee than Century Preferred. If this is correct, will the City review the migration of employees from CP to Blue Care? Will the $8,332/year average cost per covered employee be the basis for projecting retiree health care costs?

Harry I. David 789 8390 10/18/2007