



**CITY OF NEW HAVEN
BOARD OF ALDERS**

June 26, 2018

Honorable Tyisha Walker-Myers
President, Board of Alders
City of New Haven

Dear President Walker-Myers,

We would like to respectfully submit to the Board of Alders as a Communication, the attached Order calling for a public hearing in fiscal year 2018-19 with the Financial Review and Audit Commission (FRAC). This would be a valuable opportunity to discuss FRAC's March 2018 report and May 2018 Executive Summary, along with other critical financial concerns facing the city.

New Haven faces serious budgetary challenges. The Financial Review and Audit Commission (FRAC), an independent non-partisan body, has been an outstanding resource for Mayor Harp's administration, the Board of Alders, and the public regarding the city's finances.

In a May 14, 2018 Executive Summary, FRAC pointed to its March 2018 report which found the city faced a structural deficit of at least \$27M in the Mayor's proposed budget, even with an 11% tax increase. It also noted the city faces liabilities of about \$2B across pensions, other post-employment benefits, and general obligation bonds. (This underfunded liability preceded the administration's announcement on June 11, 2018, that \$16M that was to go towards funding our pension obligations as originally budgeted, likely would instead go towards paying down the FY 2017-18 budget deficit.)

In the May 14 Executive Summary, FRAC made several policy proposals. They have made additional policy proposals in meetings and conversations. Given the significant amount of time members of FRAC have spent analyzing our budget, and their extensive backgrounds in finance, we request that public hearings be held before the appropriate Aldermanic Committee, in which FRAC is asked to describe in more detail the following suggestions they have made, as well as any additional suggestions they believe are important for the city to consider at this time:

Check register: The Finance Department shall post on its website a monthly list of every dollar the city has spent.

Accounting practices: Any savings or revenue from a refinancing, refunding, or premium shall be amortized equally over the life of the issuance.

Connecticut's Municipal Accountability Review Board: The City should evaluate and publicly present its findings on the advantages and disadvantages of working with the State's Municipal Accountability Review Board (MARB) in Tier 2 status or Tier 3 status.

Bankruptcy opinion: The Corporation Counsel shall prepare an opinion regarding the impact of bankruptcy on pensioners, employees, taxpayers, bondholders, and residents in the context of Detroit, Central Falls, and other recent municipal bankruptcies, as well as of state receivership in the context of Bridgeport, Waterbury, and West Haven.

Independent Police and Fire Cost Studies: The city shall conduct independent cost studies on our police and fire departments, to determine if they could operate more efficiently.

Pension Task Force- The new pension task force shall:

Pension Fees: The pension task force shall compare pension fund returns before and after fees to our investment benchmarks in nominal dollars. This analysis shall mirror that undertaken by the Office of the NYC Comptroller in 2014.

Passive investments: Without support or prejudice, the pension task force shall report an alternative investment policy for each pension fund. Specifically, these investment policies shall rely at least 70% on passive investment products, which can include up to 25% in smart beta products.

Pension Obligation Bonds: The pension task force shall study risks and benefits of pension obligation bonds.

Ethics: The pension task force shall review the ethics, gift, and fiduciary rules applicable to the pension boards and trustees.

Pension Variables: Without support or prejudice, the pension task force shall report on the potential savings to the city resulting from the following changes to the pension plans. These savings shall be reported in both nominal dollars and inflation-adjusted dollars. (1) Delayed vesting or increase the retirement age; (2) increase in employee contributions; (3) delayed or reduced COLAs; (4) a cap on annual pension payments of \$90,000; (5) shift to defined contribution or hybrid DB/DC plans; (6) suspension of pension benefits when a retiree returns to a public job; and (7) pension buyouts. Savings from these changes shall be reported separately for new hires, current employees who are not vested, current employees who are vested, and retired employees.

Backloading: The pension task force shall study the risks and benefits of backloading pension contributions vs. flat-funding said contributions.

Information requests: The task force may make reasonable requests to the Comptroller's Office. If the Comptroller denies any request, he or she must explain the reasons for the denial in writing to the task force and the Board of Alders.

We therefore ask that the appropriate committee of the Board of Alders hold a public hearing during fiscal year 2018-19 to meet with the Financial Review and Audit Commission to discuss FRAC's March 2018 and May 2018 letters, along with other relevant issues related to the critical financial challenges facing the city. We request that the discussion focuses on steps the city can take to stabilize and improve its fiscal health, a matter of great concern to the citizens of New Haven. Thank you for your consideration of this request.

Respectfully submitted,



ABIGAIL ROTH

Alder, Ward 7



ANNA M. FESTA

Alder, Ward 10



STEVEN WINTER

Alder, Ward 21



HACIBEY CATALBASOGLU

Alder, Ward 1

ORDER OF THE NEW HAVEN BOARD OF ALDERS CALLING FOR A PUBLIC HEARING IN FISCAL YEAR 2018-19 WITH THE FINANCIAL REVIEW AND AUDIT COMMISSION TO DISCUSS FRAC'S SUGGESTIONS AND OTHER ISSUES RELATED TO CRITICAL FINANCIAL CHALLENGES FACING THE CITY.

WHEREAS: As New Haven faces serious budgetary challenges, the Financial Review and Audit Commission (FRAC), a very knowledgeable, independent non-partisan body, has been an outstanding resource for Mayor Harp's administration, the Board of Alders, and the public regarding the city's finances; and

WHEREAS: in a May 14, 2018 Executive Summary, FRAC pointed to its March 2018 report which found the city faced a structural deficit of at least \$27M in the Mayor's proposed budget, even with an 11% tax increase; it also noted the city faces liabilities of about \$2B across pensions, other post-employment benefits, and general obligation bonds (this underfunded liability preceded the administration's announcement on June 11, 2018, that \$16M that was to go towards funding our pension obligations as originally budgeted, likely would instead go towards paying down the FY 2017-18 budget deficit); and

WHEREAS: additionally, in its May 14 Executive Summary, FRAC made several policy proposals, and members have also made additional policy proposals in meetings and conversations, suggestions which very much deserve careful consideration given the members' extensive backgrounds in finance, as well as the significant amount of time FRAC has spent analyzing our city's budget; and

WHEREAS: FRAC proposals which deserve careful review include;

Check register: The Finance Department shall post on its website a monthly list of every dollar the city has spent;

Accounting practices: Any savings or revenue from a refinancing, refunding, or premium shall be amortized equally over the life of the issuance;

Connecticut's Municipal Accountability Review Board: The City should evaluate and publicly present its findings on the advantages and disadvantages of working with the State's Municipal Accountability Review Board (MARB) in Tier 2 status or Tier 3 status;

Bankruptcy opinion: The Corporation Counsel shall prepare an opinion regarding the impact of bankruptcy on pensioners, employees, taxpayers, bondholders, and residents in the context of Detroit, Central Falls, and other recent municipal bankruptcies, as well as of state receivership in the context of Bridgeport, Waterbury, and West Haven;

Independent Police and Fire Cost Studies: The city shall conduct independent cost studies on our police and fire departments, to determine if they could operate more efficiently; and

WHEREAS: in addition, FRAC has made the following recommendations concerning the new Pension Task Force;

Pension Fees: The pension task force shall compare pension fund returns before and after fees to our investment benchmarks in nominal dollars. This analysis shall mirror that undertaken by the Office of the NYC Comptroller in 2014;

Passive investments: Without support or prejudice, the pension task force shall report an alternative investment policy for each pension fund. Specifically, these investment policies shall rely at least 70% on passive investment products, which can include up to 25% in smart beta products;

Pension Obligation Bonds: The pension task force shall study the risks and benefits of pension obligation bonds;

Ethics: The pension task force shall review the ethics, gift, and fiduciary rules applicable to the pension boards and trustees;

Pension Variables: Without support or prejudice, the pension task force shall report on the potential savings to the city resulting from the following changes to the pension plans. These savings shall be reported in both nominal dollars and inflation-adjusted dollars. (1) Delayed vesting or increase the retirement age; (2) increase in employee contributions; (3) delayed or reduced COLAs; (4) a cap on annual pension payments of \$90,000; (5) shift to defined contribution or hybrid DB/DC plans; (6) suspension of pension benefits when a retiree returns to a public job; and (7) pension buyouts. Savings from these changes shall be reported separately for new hires, current employees who are not vested, current employees who are vested, and retired employees;

Backloading: The pension task force shall study the risks and benefits of backloading pension contributions vs. flat-funding said contributions;

Information requests: The task force may make reasonable requests to the Comptroller's Office. If the Comptroller denies any request, he or she must explain the reasons for the denial in writing to the task force and the Board of Alders; and

WHEREAS: it would be extremely helpful to the Board to meet with the Financial Review and Audit Commission so that its members can describe in more detail the financial suggestions they have made, as well as any additional recommendations they believe are important for the city to consider during this time of serious budget concern.

NOW, THEREFORE, BE IT ORDERED by the New Haven Board of Alders that the appropriate committee of the Board conduct a public hearing during fiscal year 2018-19 to meet with the Financial Review and Audit Commission to discuss FRAC's March 2018 and May 2018 letters, as well as other relevant issues related to the critical financial challenges facing the city, with a focus on steps the city can take to stabilize and improve its fiscal health.