October 9, 2014

FRAC met on Oct.2 with Budget Director Joe Clerkin and the Controller Daryl Jones and discussed the following:

FY 2014 Pre-audit Closeout Report

Actual revenues were $1.9 million under budget. The significant underages were in property taxes, state grants, building inspections and rents and fines. These were only partially offset by proceeds from the sale of 243 Legion Ave. and the premium from the issuance of refunding bonds.

Actual expenditures were $6.7 million under budget. Under and over expenditures are scattered throughout the departments with the most significant under expenditures occurring in Debt Service, Police and Workers' Comp. The only significant over expenditure, $1.9 million, was in the fire department, largely due to overtime.

The net operating surplus is $4.7 million of which $4.1 from the bond refunding has previously been transferred by the Board of Alders to the fund balance. The remaining $0.6 million goes to the undesignated fund balance. The unaudited general fund balance on June 30, 2014 is $22,045. This is a very long way from the 5% of expenditures the rating agencies consider a minimum.

FY 2015 as of August 31.

While it is too early in the fiscal year to draw any valid conclusions about year end results, a disturbing trend is already evident in Fire Department overtime. The Management and Budget Office is estimating that the department will overspend overtime by $4.2 million. This is primarily due to the length of time it takes to seat new classes of recruits which in turn is caused by the protracted background check process. Currently these checks are done in-house by the police department. The City should seriously consider outsourcing this service. Overtime savings would more than offset the cost.

Bond Refunding

The FY 2015 cash savings from the August bond refunding were $14.4 million. The City has submitted to you a request to use the savings as follows:

$7.4 million to the Self Insurance fund
$6.4 million to the Medical Self Insurance Fund
$0.7 million to the general fund balance

We support the proposed uses of the cash savings but we are obligated to point out that the City is effectively borrowing to expediently eliminate two very troublesome and persistent self insurance fund deficits that the auditors and rating agencies roll into the general fund anyway. The cash flow savings in FY 2015 arise from the front loading of the refunding savings but ultimately the piper must be paid. This begins to occur in FY 20 where there is a negative cash flow of $0.4 million between old and new debt service. The most striking difference is in FY 24 with a negative difference of $11.5 million.

Pensions

For some time we've been concerned by governance and structural issues in CERF and P&F, especially oversight of investment advisors and managers. This is one of the topics we have chosen to concentrate on during FY 2015. Daryl Jones spent considerable time updating us on the results of his meetings with the two pension boards and distributed legal documents applicable to them.

Joseph Dolan
Vice Chairperson