

Budget and Finance

Context

New Haven continues to grow by attracting people who want a vibrant small-city experience, but significant financial pressures limit the services that the City can offer its residents. Its difficult financial situation has been decades in the making and is not attributable to any single person or decision. Neither tax increases nor spending cuts will be enough to address the City's financial needs. Instead, new revenues are needed. The administration should pursue a dual-track approach: (1) engage stakeholders quickly, in order to recommend a budget to the Board of Alders by March 1, and (2) begin long-term financial planning with broad buy-in to position the City for inclusive growth and leverage new revenue sources.

First 100 Days

Recommendation 1: Engage stakeholders in remediating the budget deficit for FY 2020-2021.

The deficit could be as high as \$50 million. The immediate cause of this deficit is a \$35 million increase in debt-service costs between this year and the next, along with \$15 million in inflationary cost increases and estimated deficits at the Board of Education. Some reduction will be possible through refunding opportunities that maintain current maturities and result in net present-value savings. But the City will need to identify significant new revenue sources to close the gap. It will need to adopt clear, top-line financial goals and targets so that all stakeholders are clear on the outcomes. And it will need to prioritize resolving the budget deficit by engaging everyone impacted to help find possible solutions.



Recommendation 2: Initiate a revenue review.

Assess the full amount of lost revenue from all anchor institutions, other subsidized developments, and other nonprofits, and assess the community impact of the lost revenue. In collaboration with the community, the Board of Alders, and the state delegation begin building a coalition to close the revenue gap. Responsibly partner with Yale and Yale New Haven Hospital in the context of inclusive growth and a new vision for New Haven.

Recommendation 3: Continue current financial controls.

New practices around purchasing, overtime, contract approval, approval of requests for proposals, and hiring, which were implemented in November, should be maintained and adopted as standard practice in future years.

Two Years

Recommendation 1: Close the revenue gap with anchor institutions.

As part of an Inclusive Growth Initiative (see Economic Development recommendations), collaborate with Yale University and Yale New Haven Hospital to ensure the City's financial stability and overall development. In particular, given Yale University's untaxed New Haven property assessed at \$6.6 billion, work to secure increased ongoing annual payments to the City that take into account the extent of lost revenue. As the City's largest employers, Yale and Yale New Haven Hospital are integral to New Haven's success—and when New Haven thrives, Yale thrives.

Recommendation 2: Create a holistic, long-term financial stability plan.

Convene a broad coalition of executive and legislative state leaders, leaders from Yale University, Yale New Haven Hospital, and other colleges and nonprofits, labor leaders and leaders from the business sector, and neighborhood leaders in order to present New Haven's financial difficulties as not just an issue of municipal finance but a challenge to the whole community. Show how revenues will be used responsibly and the City positioned for inclusive growth within a long-term plan that requires greater contributions from the state, businesses, and nonprofits. In developing this plan, taxpayers should be the last ones asked to sacrifice.

Recommendation 3: Request that the state develop a plan to support fiscal stability in New Haven and the other large cities.

The Mayor can take a leadership role in an emerging coalition of big-city mayors that can present a strong legislative agenda and seek legislative changes with regard to state funding formulas and ways to enable towns to diversify revenue sources.

Recommendation 4: Undertake a department-by-department review to align spending with needs.

Most of the City's costs go toward personnel, meaning that cuts would require the City to do less with fewer people. However, the administration can examine staffing levels in the Police and Fire Departments, the requirements of union contracts, and the need to ensure public safety. Under the supervision of the Superintendent of the New Haven Public Schools, it can also conduct a review of Board of Education funding needs. As in any large organization, there are probably divisions that have become overstaffed and others that are stretched. Rationalizing staffing across departments is a way to improve service delivery without increasing costs.

Recommendation 5: Implement transparent budgeting and spending.

Publish the City budget in an easily shared and sorted electronic format. In the monthly report and annual budget, break out costs in consolidated cost centers like healthcare by department. Establish an online "check register" that shows all spending. Review and publish the City's policy for travel costs and severance pay. Provide regular reports on pensions and other post-employment benefits, such as fund performance, and make presentations to investors and credit-rating agencies, to the Finance Committee of the Board of Alders, and to the Financial Review and Audit Commission. Review the governance process for bond refundings. At the Board of Education, ensure tighter controls and closer scrutiny of spending to ensure that frontline services are prioritized. Address technical issues in the implementation of Oxygen, a cloud-based system that is supposed to find savings by streamlining billing and payments.

Long Term

Recommendation 1: Establish new City-generated revenue and secure other revenue streams.

The City already imposes a number of fees and has broad public health powers that can be used to enforce new fees. The new fees could include a stormwater fee and public health fees, as well as building-permit and other user fees, which would more directly impact large institutions than households. Other possibilities are a hospital bed tax, a local sales tax, and a commuter tax. However, fees are unlikely to close the budget deficit, and the impact of new revenues on business sentiment, investment, and growth must be assessed. For any fee, exceptions should be made for low-income households and nonprofit organizations wherever possible.

Recommendation 2: Strengthen grant-seeking capacity.

The City has successfully competed for grants from the state and federal governments and from nonprofits and philanthropy. Now the City should assess and grow its current capacity to identify, apply for, manage, and comply with grants. In addition, it should explore other revenue opportunities, such as social impact funding, which are investments designed to generate beneficial social or environmental impacts alongside financial return. It should also ensure full utilization of all existing private and government grant funding, such as the Community Development Block Grants.

Recommendation 3: Formalize good budgeting practices.

There are a number of practices to be considered. The administration should announce a public goal of achieving a 15% budget reserve fund, which would result in lower interest rates from investors

and prevent tax increases in the next recession. In addition, the City should remove the “property tax initiative” line in the budget, which reflects the revenues that should be sequestered in case of revenue shortfalls. It is also critical to update facilities and maintenance plans and publish the estimated cost to maintain equipment, vehicles, and facilities.

Recommendation 4: Host a challenge competition.

The City can sponsor a competition for students, urban planners, advocates, and others to try to solve discrete but difficult issues facing the City. Questions that would be appropriate for a challenge competition are how to lower utility costs and how to rationalize the City’s fleet. These are just examples. Large, unstructured challenges, such as how to balance the budget, are unlikely to be successful.

Recommendation 5: Experiment with participatory budgeting.

New Haven’s strong community must be engaged early and often in the budgeting process. This begins with proactive outreach to discuss the budget—not just inviting community proposals but also asking questions about where we are, how we got here, how budgeting works in New Haven, etc. As a longer-term goal, the administration could consider a participatory budgeting pilot program to increase citizen engagement with City government.

Recommendation 6: Systematize regular review of all contracts.

Beginning with large contracts and those up for renewal, review all processes for contracting and purchasing, as well as processes laid out in the City Charter, ordinances, and administrative policy. Use contracts negotiated by the state, the Capitol Region Council of Governments, the South Central Regional Council of Governments, and other regional and national bodies when

possible, since prices are likely to be lower when contracts are negotiated by a larger body. Allow contracts, particularly software contracts, to be multiyear in order to achieve savings. Move toward performance-based contracting.

Recommendation 7: Set a policy of transparency and honesty in bonding.

When we bond, we should avoid bond premiums.

Recommendation 8: Examine making a move to low-cost, mostly passive pension investments.

Undertake a review of historical returns on different types of investments, with attention to low-cost investments. New York City undertook a similar review and found that, after fees, low-cost investments generated higher returns over

time. Reduce the assumed rate of fund returns to a more realistic level. Stretch out payments into the pensions over 30 years, with each of those payments equalized rather than backloaded toward large payments in future years, as is currently the case. Review the Connecticut Treasurer's Short Term Investment Fund as an alternative to depositing the City's money in bank accounts.

Recommendation 9: Consider a land value tax.

The State of Connecticut is piloting a land value tax in place of or in addition to a property tax. Review opportunities for New Haven to use the Payment in Lieu of Taxes (PILOT) on State Property program to adopt a tax system that is more equitable than the one currently in use.



Photo: Sarah Miller