



Luke A. Bronin
Mayor

January 11, 2017

Hartford Pension Commission
c/o Treasurer Adam M. Cloud, Secretary
250 Constitution Plaza, 2nd Floor
Hartford, CT 06103

Dear Commissioners:

As we have discussed previously, and as I know you have anticipated for some time, this letter is to formally notify you that I have instructed the CFO & Director of Finance to maintain and account for the City's contributions to the City's Municipal Employees Retirement Fund (MERF) in the City's general fund for the remainder of this fiscal year, rather than transferring the remaining contributions to the MERF on a weekly basis. It remains our intention to make the full contribution to the MERF by June 30, 2017.

As you know, the City of Hartford faces a full-blown fiscal crisis. We currently project an FY2018 deficit of approximately \$47 million, with deficits rising substantially in the years ahead. Those growing deficits are driven by multiple factors, including rising debt service costs, though the most significant cause of the City's structural budget crisis is the relative inadequacy of Hartford's taxable property base.

In addition to the deficits projected in the years ahead, we face substantial challenges in the current fiscal year. During Hartford's presentation to the Municipal Finance Advisory Commission in September of 2016, we projected a shortfall of nearly \$23 million in FY2017 and highlighted potential cash flow challenges in December of 2016 and March of 2017.

Working closely with the Office of the Treasurer, we successfully managed the December cash flow challenge, and we are now confident that we will be able to manage the March cash flow challenge in a similar manner.

We have also worked to reduce our projected current year deficit. As a result of our recently-negotiated agreement with the Hartford Fire Fighters Association, our pending appeal of the recent *Serrano* decision, the apparent progress at Dunkin Donuts Park, and what we project to be significant decreases in our final FY2017 pension contribution obligation due to position eliminations and aggressive capturing of attrition savings, we believe that our FY2017 deficit will be less than the \$23 million projected in September. However, we continue to project that

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the FY2017 deficit will exceed available fund balance, leading to funding challenges in June of 2017.

The responsible, long-term solution to Hartford's fiscal challenges requires fundamental reforms to Hartford's revenue structure, as well as continued focus on expense reduction. As you know, we will be working hard to make the case for such reforms during the current session of the State's General Assembly.

However, because the State legislative session runs until June, and the new budget will not take effect until July 1, 2017, we cannot rely on the State budget process to address our June 2017 funding challenge, even if long-term structural reforms are ultimately achieved. Accordingly, we are working with the Office of the Treasurer to explore the feasibility of a short-term borrowing, such as Tax Anticipation Notes, to meet the year-end funding challenge. Let me stress that we would view the issuance of short-term debt as a one-time solution to an imminent cash flow challenge, and *not* as a means of addressing the City's long-term, structural imbalance.

While we have received indications that there is sufficient interest from lenders to support the issuance of Tax Anticipation Notes, I believe that it is prudent to take additional precautions to ensure that, under every contingency, the City of Hartford will be able to continue to operate as the provider of essential services that benefit our residents, our businesses, and the Capital Region and State beyond. That is why, until such time as we have successfully closed on the short-term borrowing or otherwise addressed the funding challenge we face in June of this year, I believe that it is prudent and necessary that the City depart from the customary practice — not required by law — of transferring pension contributions to the MERF on a weekly basis, and instead allow those contributions to accrue in our general fund until the end of FY2017.

It is important for everyone to understand that this withholding of MERF contributions applies only to the City's contributions for the remainder of this fiscal year; that it is our intention to make our full contribution to the MERF by the end of the fiscal year; and that this decision will in no way impact the benefit payments to retirees.

The MERF currently has an estimated liability just under \$1.4 billion with assets of approximately \$1.0 billion as of information dated September 9, 2016. These liabilities and assets result in an approximately 76% funded level for the benefit of our retirees and active employees. It is noteworthy, that the City has already made approximately 60% of the requested annual contribution to the MERF as of January 6, 2017.

Moreover, it is my understanding, based on past discussions with the Pension Commission and with the Office of the Treasurer, that the Pension Commission in recent months has been preparing to manage its investments in anticipation of this action so as to ensure adequate liquidity to satisfy all payments to retirees.

Though we have had the opportunity to discuss this decision on a number of occasions, please know that I am always available to discuss this decision with you further at any time. I look forward to continuing to work together to help put the City of Hartford on a path to fiscal health.

Sincerely,

A handwritten signature in black ink, appearing to read 'Luke A. Bronin', with a stylized flourish at the end.

Luke A. Bronin
Mayor

cc: Council President Thomas J. Clarke II