

FISCAL POLICIES SECTION

The fiscal year 2015 budget process started with a basic question: “How can the same level of services be provided next fiscal year to the community without significantly increasing local property taxes?” This question is raised in virtually every Town Hall across the State. While the process starts with this question, it is inevitable that a property tax increase will be required to finance Town operations. In an attempt to minimize that tax increase, the Town budget development process requires a full examination and scrutiny of all expenditures and revenues with the ultimate goal of reaching a balance between the provision of necessary services to the community and the raising of local property taxes.

The immediate concerns associated with the annual budget are primarily expenditure driven. As a baseline comparison, the budget preparation process starts with an assumption that there will be no expansion in programs or services for the ensuing fiscal year. This analysis allows for a year over year comparison of the primary expenditure drivers that shape the annual budget. Of these primary expenditure drivers or structural costs, the most significant and least controllable are employee benefits and general wage increases. The expenses associated with the provision of these structural costs are either driven by union contracts or in the case of the Pension Annual Required Contribution (ARC) or Other Post Employment Benefit (OPEB) contribution, identified as required contributions by actuarial valuations. One option to keep these rising costs in check is to aggressively negotiate unsettled labor contracts by either limiting benefit increases or agreeing to a more equitable sharing of those costs with employees. Additionally, the Town is constantly exploring ways to work more efficiently and effectively, either through restructuring or negotiation of service contracts, such as trash removal and recycling, through technology investments which yield efficiencies, or through assessments of staffing level, all with the intention of reducing operating costs.

While labor negotiations are ongoing for most Town unions, the historical trend of structural costs indicate that cost escalation, predominately with healthcare, far outpace any growth in local non-tax revenues such as conveyance taxes, building permits, parking violations, aid from the State of Connecticut, and Grand List growth of taxable property. Local non-tax revenues have been consistent, with minor fluctuations, and the Governor has proposed an increase in aid to the Town for fiscal year 2015 compared to the Town’s adopted fiscal year 2014 budget. The Grand List has seen a modest increase as well, however, these revenue increases are insufficient to offset the increases associated with the structural costs identified. This budget reflects a decision to maintain the current level of services. Therefore, no programs have been eliminated. The following assumptions are included in the fiscal year 2015 budget:

- A 99.0% tax collection rate;
- Grand List growth of approximately \$34.7 million or 0.59% over the prior year;
- Modest increases in non-tax revenue estimates;
- Inclusion of the Governor’s fiscal year 2015 proposal for State Aid and adjustment to the Education Cost Sharing Grant, an increase of \$1,125,000 over the Town’s fiscal year 2014 adopted budget;
- Full funding of the ARC to the Town’s Pension Plan;
- An increase in the contribution to the Retiree Health Reserve;
- The addition of a new Building Inspector position in response to increased building permit applications, which are expected to sustain at current levels, and to address the associated backlog to date. In an effort to mitigate the cost of the additional Building Inspector, the vacant Assistant Zoning Enforcement Officer position is unfunded in fiscal year 2015;

- The upgrade on an existing position to Deputy Town Clerk to assume the operational responsibilities of the Registrars of Voters Department, offset by the reclassification of the vacant Assistant to the Town Council position to a Senior Staff Assistant;
- An increase of \$43,941 to the Dial-A-Ride program to reflect a modest contractual increase and a significant increase in the demand for rides; and,
- The recommendation to Town Council for adjustments to the Town's parking rate structure to both generate sufficient revenue to pay the outstanding debt service on the Blue Back Square bonds and establish equity amongst the various parking options.

The fiscal year 2015 General Fund budget totals \$250,845,023 and represents an expenditure increase of \$9,288,806 or 3.8% from fiscal year 2014. The municipal services portion of the budget totals \$91,202,122, an increase of \$3,687,717 or 4.2% from the current year budget. The Board of Education budget totals \$145,888,757, an increase of \$5,832,858 or 4.2%. The capital financing portion of the budget for both municipal and education services is \$13,754,144, a reduction from fiscal year 2014 of \$231,769 or 1.7%. Property taxes are the primary source of revenue for municipalities in Connecticut and increases in property tax revenue are generated from growth in the value of taxable property and increases to the tax rate. As a fully developed community, growth in the town's taxable property is through re-use of existing property which has been reduced with the economic climate. The October 1, 2013 net taxable Grand List totals \$5,928,561,109, an increase of \$34,665,003 or 0.59% from last year's list. The real estate portion of the Grand List increased by \$20,171,628 or 0.38%. This increase was generated by new construction and residential/commercial remodeling projects. Additional growth was offset by the settlement of 21 tax appeals from the 2011 revaluation in the amount of \$10,883,568 of which Blue Back Square accounted for 78.9%. The motor vehicle portion of the Grand List increased by \$9,136,305 or 2.3%. This was a result of an influx of approximately 10,000 new vehicles that were not on the previous list along with used cars sustaining higher values. The Personal Property List increased by \$5,357,070 or 3.2% reflecting new capital investments in business furniture, fixtures and equipment and utility company cables and conduits as well as new businesses with higher valued equipment. The net increase in the taxable Grand List generates \$1,295,431 in additional revenue for FY 2015.

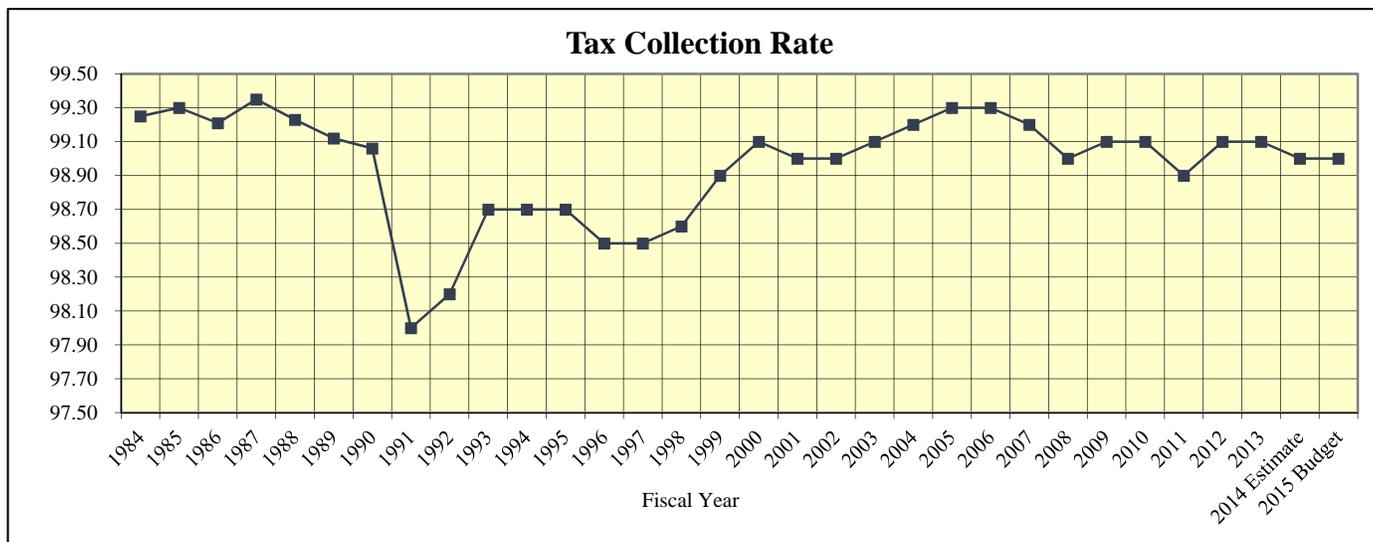
All other non-current year tax revenue sources in the fiscal year 2015 budget show an increase of \$1,827,285 from the current year adopted budget. The growth in the Grand List along with growth in other revenue sources are not sufficient to provide the necessary additional revenue to support the cost of maintaining municipal and education services in fiscal year 2015. In order to finance the budget, an increase in current year property tax revenue, over and above the taxes generated from Grand List growth, of \$6,166,090 or 2.9% is required. A mill rate of 37.37 is needed to finance the property tax revenue. This represents an increase of 1.07 mills or 2.9% from the current rate.

SUMMARY OF REVENUES

	FY 2014 <u>Adopted</u>	FY 2015 <u>Adopted</u>	Increase/ <u>(Decrease)</u>	Percent <u>Change</u>
Current Property Taxes	\$210,276,426	\$217,737,947	\$7,461,521	3.5%
Other Property Taxes	3,400,000	3,775,000	375,000	11.0%
Intergovernmental	20,967,986	22,264,687	1,296,701	6.2%
Charges for Services	4,919,819	5,096,394	176,575	3.6%
Miscellaneous Revenue	919,000	946,000	27,000	2.9%
Transfers from Other Funds	<u>1,072,986</u>	<u>1,024,995</u>	<u>(47,991)</u>	-4.5%
TOTAL	\$241,556,217	\$250,845,023	\$9,288,806	3.8%

Property Taxes

Approximately 87% of the annual General Fund budget is financed through current year property tax revenue. Increases in property tax revenue are generated from growth in the value of taxable property and increases to the tax rate. As a fully developed community, growth in the Town’s taxable property is through re-use of existing property which has been reduced with the economic climate. The October 1, 2013 net taxable Grand List totals \$5,928,561,109; an increase of \$34,665,003 or 0.59% and is expected to generate \$1,295,431 in additional revenue for FY 2015. The successful collection of current year property taxes is a critical element in determining property tax revenues and effectively managing the budget during the fiscal year. The Town historically collects over 99% of the current year taxes levied. However, due to the slow economic recovery in the region, the current collection rate of 99% is anticipated to remain the same in the near term. The collection of the second installment of property taxes on real estate in January 2014 was consistent with our experience in prior years and it is anticipated that the 99.0% collection rate will be achieved. Property tax collections fell to 98% during the last recession (1991-92). A one-tenth change in the collection rate equates to \$217,738 in revenue. The fiscal year 2015 budget continues the 99% collection rate assumption.

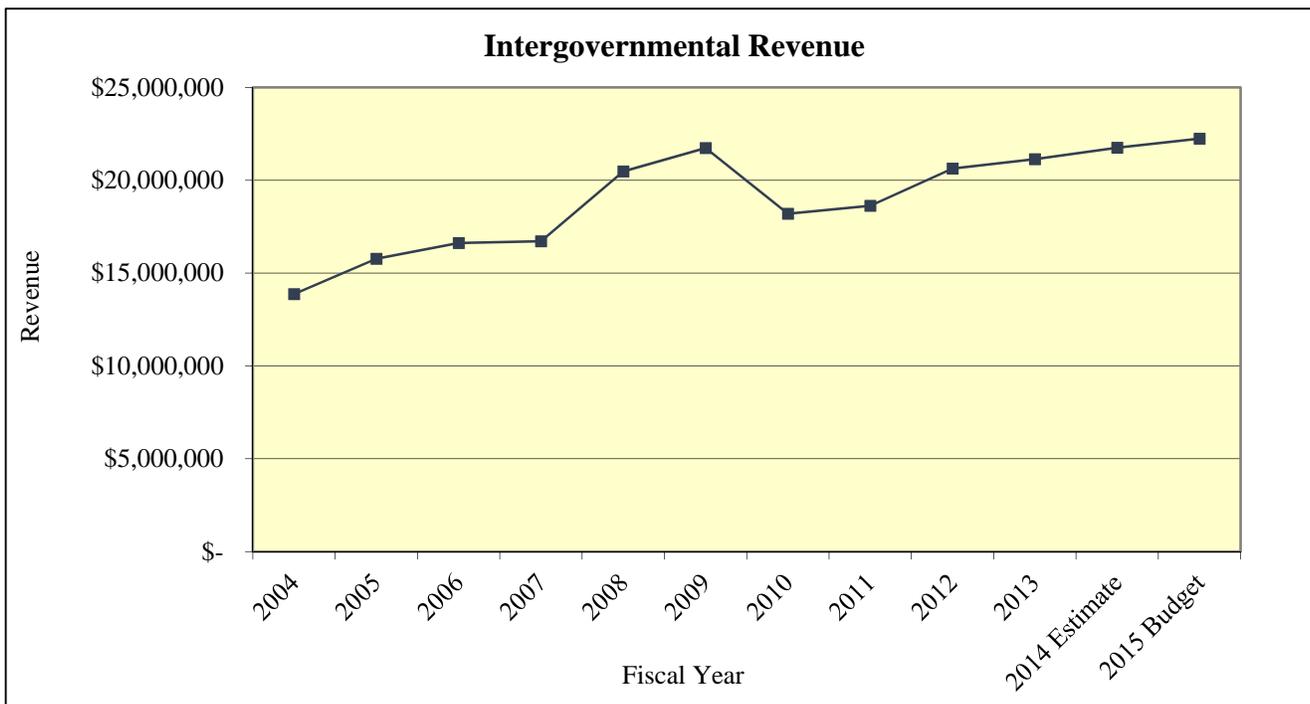


Intergovernmental Revenue

Intergovernmental Revenue to West Hartford for fiscal year 2015 reflects the Governor’s proposed fiscal year 2015 State budget and a subsequent adjustment to the Education Cost Sharing grant. The Town’s fiscal year 2014 adopted budget also included the Governor’s proposed budget as that was the latest information available at the time of adoption. The State budget that was subsequently adopted provided more favorable funding than the Town had estimated. Intergovernmental revenue, inclusive of the Governor’s proposed formula grants, is as follows:

<u>Grant</u>	<u>FY 2014 Adopted</u>	<u>FY 2015 Adopted</u>	<u>Increase/ (Decrease)</u>
ECS Grant	\$ 17,600,739	\$ 18,181,174	\$ 580,435
LoCIP Program*	700,986	459,237	(241,749)
Municipal Tax Relief (previously MRSA)	588,232	757,839	169,607
Payment in Lieu of Taxes (PILOT)	1,032,821	1,332,388	299,567
Pequot/Mohegan Fund Grant	-	219,669	219,669
Public School Transportation	-	256,021	256,021
Town Aid Road	690,125	689,311	(814)
Other State Revenue	<u>963,756</u>	<u>806,285</u>	<u>(157,511)</u>
Total	\$ 21,576,699	\$ 22,701,924	\$ 1,125,225

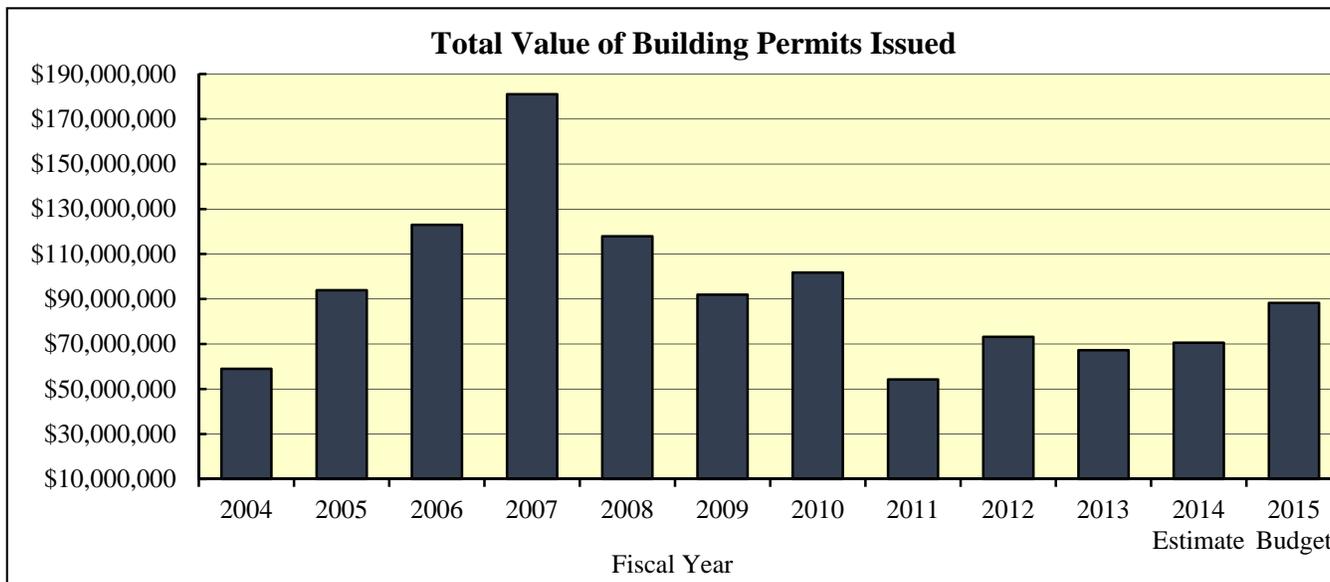
* Accounted for as a transfer in from the Capital Projects Fund.



Charges for Services

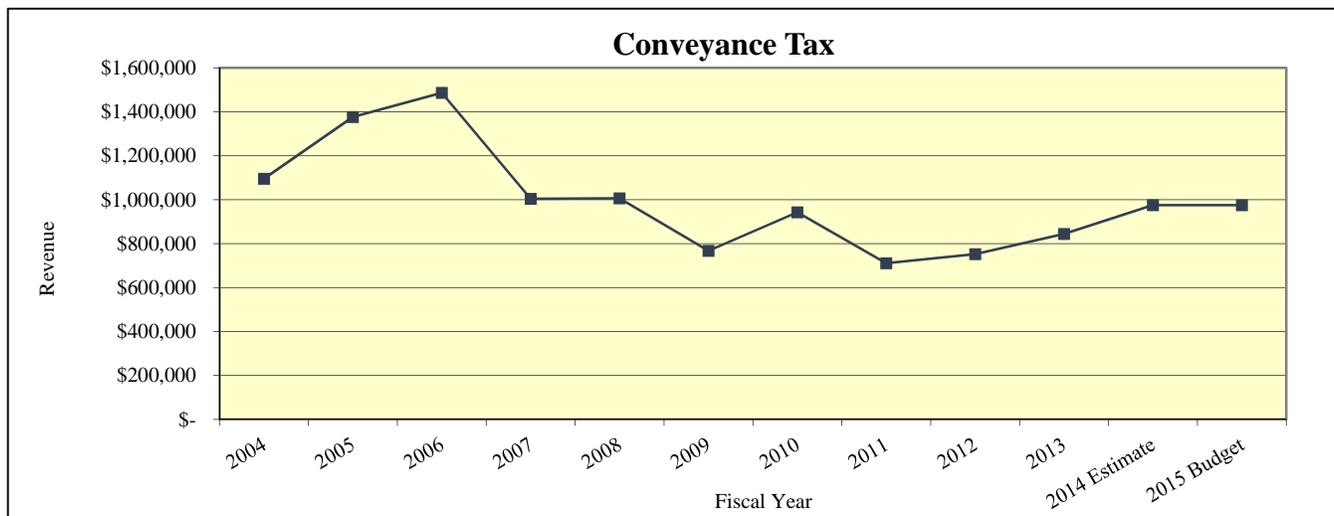
Building Permits

Estimated building permit revenue is expected to reach \$1,500,000 for fiscal year 2015, an increase of \$200,000 over the fiscal year 2014 adopted budget. The building permit fee is calculated based upon the value of new construction or building improvements. Permit revenue for fiscal year 2014 was budgeted to be \$1,300,000 but was reduced in mid-year projections to \$1,200,000 as a result a lower level of building activity. However, the value of permits is expected to increase in fiscal year 2015 due to improving economic conditions and a number of significant residential housing and commercial construction projects expected to move forward.



Real Estate Transactions

The Town receives fees established by the State of Connecticut for real estate transactions. Land recording fees are received for the actual recording of legal documents and conveyance taxes are charged on every transaction. The fiscal year 2015 budget keeps conveyance tax revenue constant at \$975,000 based upon the level of activity in the current fiscal year. The fiscal year 2015 budget reduces the estimated amount for land record fees by \$20,000; however, this reduction is offset by revenue from the recently approved Mortgage Electronic Registration System (MERS) which is estimated at \$60,000.



Miscellaneous Revenues

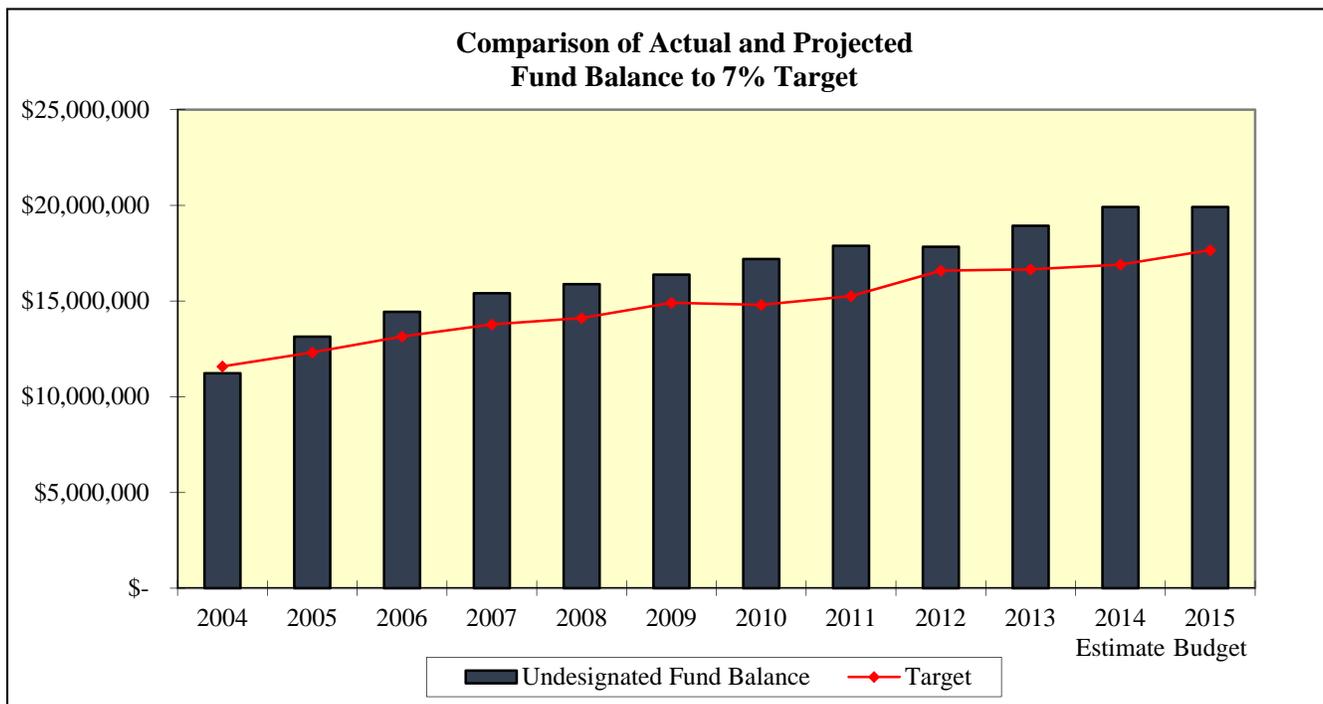
Investment Income

The Town invests available cash to generate interest income which is used as a revenue source in the annual budget. Estimated interest income was \$500,000 in the fiscal year 2014 adopted budget based upon an assumption of interest rates increasing as part of an economic recovery. Unfortunately, interest rates have continued to decline and anticipated revenue from investment income is projected to be only \$250,000 in the current fiscal year. Historically, the Town invested its available cash in the State Treasurer’s Short-Term Investment Fund which is currently yielding approximately 0.16%. Due to these low rates, the Town is investing in money market accounts at several financial institutions at rates between 30 and 50 basis points to provide additional investment income above what STIF would have generated.

The Town has employed a new strategy whereby a balance is maintained in a non-interest bearing account with its primary bank. While no interest income is earned on these funds, the bank offers a 45 basis point earnings credit applied directly to banking fees the Town is charged. In this case, a decision not to invest those funds results in significant cost avoidance. On a quarterly basis, the Town reviews independent bank ratings on all financial institutions with which relationships are maintained, investing only with those that maintain at least a four (out of five) star rating. Based on our current year projection and an assumption that the near term economic climate will not result in increased interest rates, the estimated interest income for fiscal year 2015 is budgeted at \$250,000.

Use of Fund Balance

Fund balance is cash that the Town has accumulated from prior year budgets when revenues exceeded actual expenditures. The Town’s June 30, 2013, undesignated fund balance is \$18,936,649 or 8.0% of General Fund expenditures. The fiscal year 2015 budget does not anticipate any use of fund balance to cover operating expenditures.



SUMMARY OF EXPENDITURES

	<u>FY 2014</u> <u>Adopted</u>	<u>FY 2015</u> <u>Adopted</u>	<u>Increase/</u> <u>(Decrease)</u>	<u>Percent</u> <u>Change</u>
<u>Town Services</u>				
Wages & Salaries	\$37,571,837	\$38,180,558	\$608,721	1.6%
Operating Expense	21,909,607	22,102,146	192,539	0.9%
Capital Equipment	7,500	-	(7,500)	-100.0%
Fringe Benefits & Insurance	<u>28,025,461</u>	<u>30,919,418</u>	<u>2,893,957</u>	10.3%
Total Town Services	\$87,514,405	\$91,202,122	\$3,687,717	4.2%
 Board of Education	 \$140,055,899	 \$145,888,757	 \$5,832,858	 4.2%
 Capital Financing	 <u>\$13,985,913</u>	 <u>\$13,754,144</u>	 <u>(\$231,769)</u>	 -1.7%
 Total Expenditures	 <u>\$241,556,217</u>	 <u>\$250,845,023</u>	 <u>\$9,288,806</u>	 3.8%

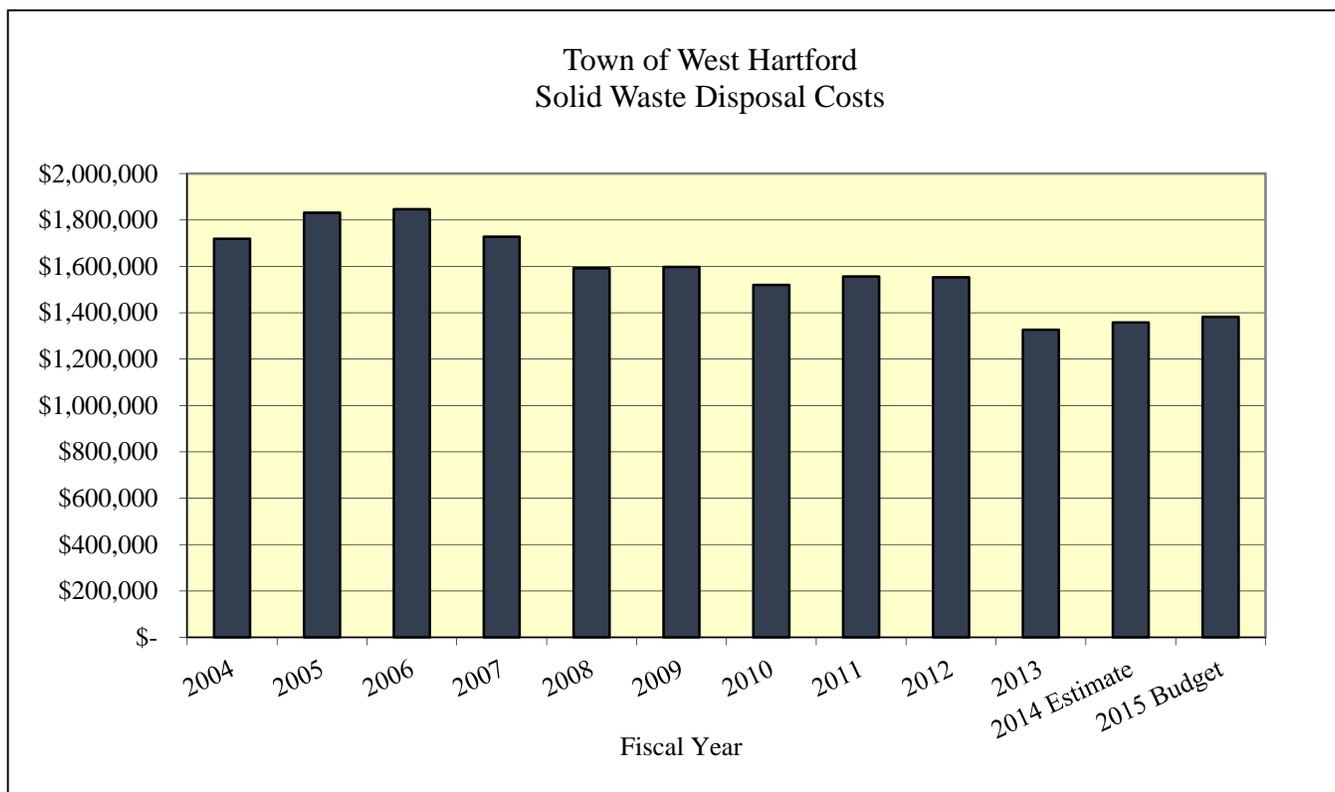
Town Services

Wages & Salaries

Regular payroll totals \$31,440,543; an increase of \$425,866 or 1.4% over the fiscal year 2014 adopted amount. This account represents the wages and salaries associated with all full-time employees. The budget includes applicable merit increases, but only includes cost of living adjustments for the Fire Union contract which settled in April 2014. The budget does not include an estimate for cost of living adjustments for all other unions because as of June 30, 2014 all other collective bargaining agreements will have expired. A separate contingency has been established for potential wage settlements. The budget reflects the restructuring of the Town Clerk department such that an existing position will be upgraded and assume administrative oversight of the Registrar of Voters department. Offsetting this budget increase is the refill of the vacant Assistant to the Town Council position with a Senior Staff Assistant. A Building Inspector position is added to the Community Services department to address building activity levels and the processing time associated with building permits. The currently vacant Assistant Zoning Enforcement Officer is left unfunded to offset this increase. In addition, a vacant Building Maintenance Technician position in the Facilities Services department is unfunded and will be backfilled with temporary payroll. The 2015 budget includes an additional \$95,000 in overtime for the Police Department, consistent with overtime experience and workflow demands. A hiring lag in the Police Department is budgeted at \$180,000, a decrease of \$20,000 from the fiscal year 2014 budget assumption.

Operating Expenses

Operating expenses have increased \$192,539 or 0.9% over the 2014 adopted budget. Contractual services increases include \$25,000 for maintaining the Town’s facilities and \$18,274 for the hauling of refuse and recycled materials within the Public Works department. The hiring of new firefighters requires an additional \$32,935 for uniforms and turnout gear. Fiscal year 2015 is the first year that the Tax Collector’s Office will have to fund a software maintenance agreement for their revenue collection software (\$23,700). In response to increasing demands for elderly transportation, an additional \$43,941 has been added to the regular Dial-A-Ride program. The Town’s contribution to the Metropolitan District Commission (MDC) for sewer services is based upon the MDC’s adopted budget and the Town’s tax levy as a proportion of all the MDC members’ tax levy. The Town’s contribution in fiscal year 2015 increases \$331,850. Additional increases include \$53,563 in vehicle equipment expense in response to gasoline consumption and rates and vehicle repair costs. Utility costs decrease \$261,158 due to the stabilization of utility rates and use of accumulated surplus funds in the Utility Services fund. Additionally, a \$30,000 savings is achieved by moving from leased circuits to fiber.



Employee Benefits & Insurance

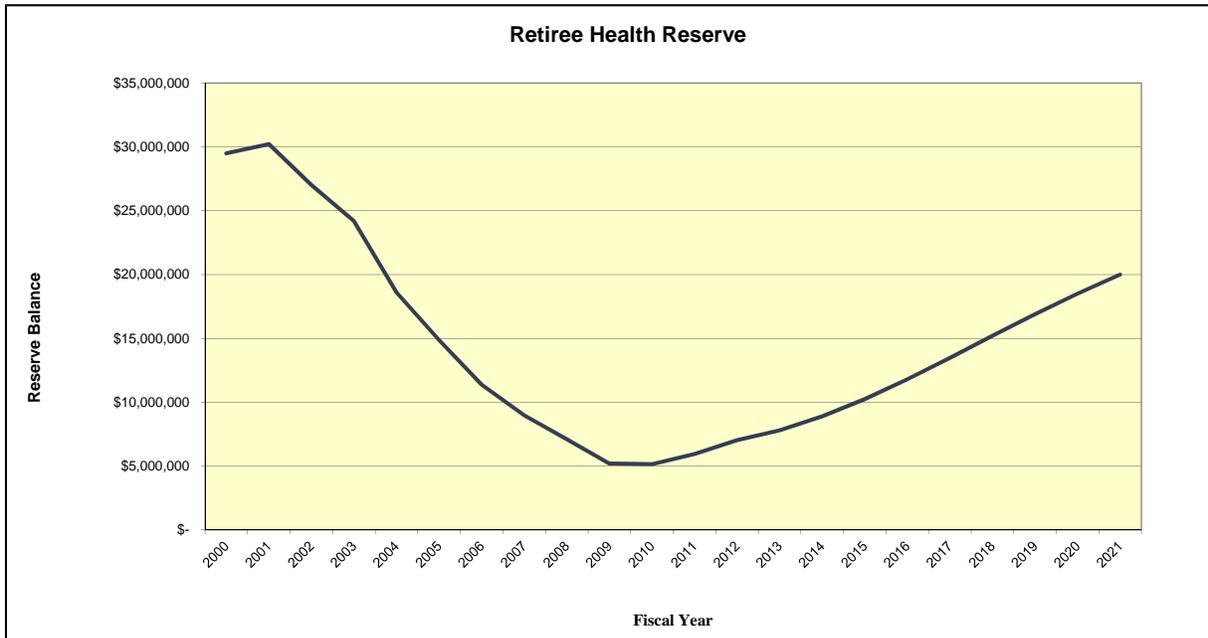
Risk management expense represents the cost of employee health benefits, insurance, self-insurance and workers compensation programs and is allocated amongst the budgets of the BOE, Town and other funds. The Town's General Fund risk management expense increases \$695,483 in fiscal year 2015. Town Health Program expense increases by \$248,437 in fiscal year 2015 reflecting the General Fund portion of the \$500,000 increase in the contribution for retiree health (as discussed below) offset by favorable active employee health care costs. The contribution to the workers compensation program is increased \$318,130 reflecting higher claims activity and amortization of the program's accumulated deficit. The contributions to the heart & hypertension program (\$89,503) and self-insured program (\$24,859) are increased based upon claims activity and the insured program is experiencing an increase (\$14,554) based upon anticipated premiums.

Retiree Medical & Pension Benefits

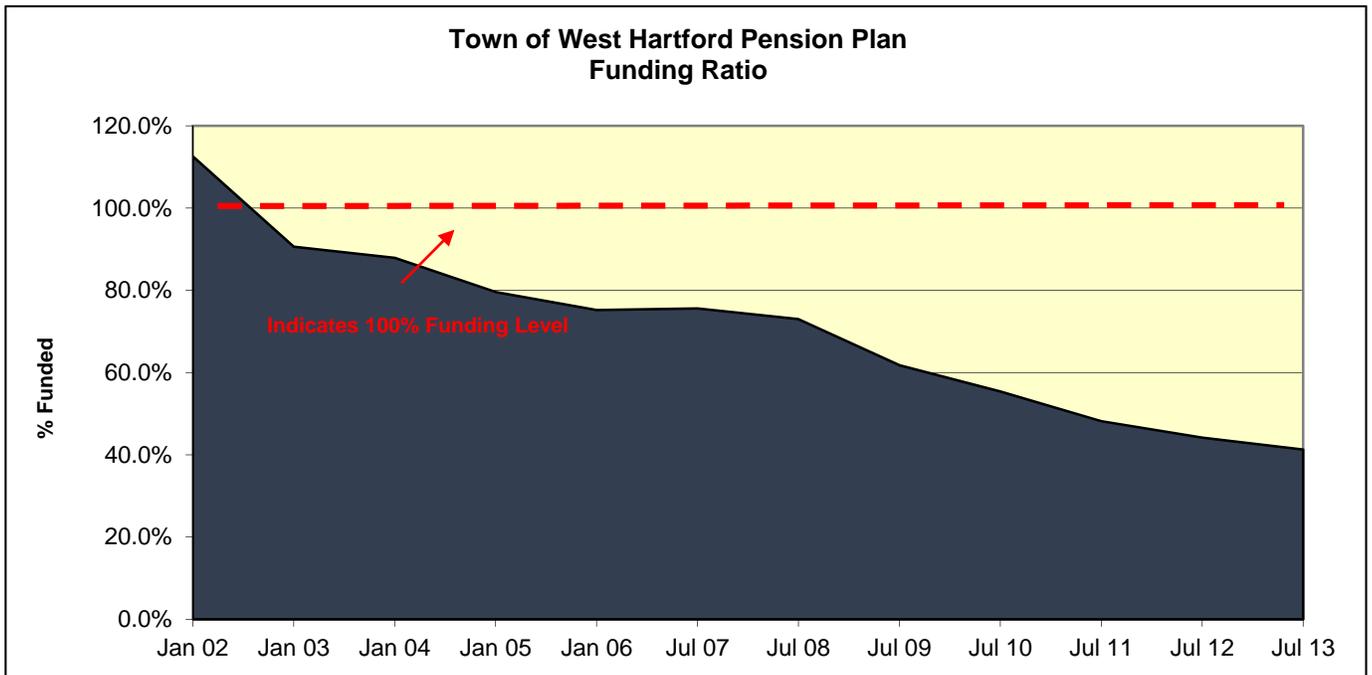
The Town provides medical benefits to retired employees in addition to a pension benefit. The total liability for retiree medical benefits, last measured on July 1, 2011, is \$107,489,500. These benefits are paid from a retiree health care reserve fund established in 1984. The annual General Fund budget makes a contribution to the retiree health reserve fund each year and these funds are invested in fixed income and equity securities. A long range funding plan for the retiree health care reserve fund was implemented in fiscal year 2005 in response to the elimination of the General Fund's contribution to the reserve fund in fiscal years 2003 and 2004 and the continued use of the reserve to pay all retiree health care claims. The balance of the reserve fund declined from \$27,012,296 on July 1, 2003 to \$18,585,066 on June 30, 2004. The retiree health funding plan was developed to gradually restore the General Fund contribution to the reserve fund to a level sufficient to preserve the financial viability of the fund. The funding plan also maintained the financial benefit of the reserve fund as retiree health claims paid from the reserve fund exceed the annual General Fund contribution to the reserve fund. The General Fund contribution to the retiree health care reserve fund increases \$500,000 and will total \$9,130,000 in FY 2015 split between the Town (\$6,622,000) and Public Schools (\$2,508,000). This increase is \$200,000 less than the planned increase in the contribution as required by the long-term financial plan due to the positive performance of the fund.

After almost ten (10) years of declining fund balance, while all retiree claims were paid out of the fund and the contribution was gradually increasing, the reserve fund balance is growing again. The transfer to the reserve fund and other revenue from employee contributions and investment income is expected to exceed the estimated claims payments in future years.

The Town has extended the retirement eligibility for new employees hired after 2003 which significantly lowers the liability associated with retirement health care. An additional 5 years of age was added to public safety employee's retirement eligibility and non-public safety employees hired after 2003 have a retirement eligibility age of 65. A trust fund has been established for these employees and the annual required contribution to the trust for the cost of retirement health care benefits earned was deposited in the fund from employee contributions.



The contribution to the Pension Fund is based on an actuarial recommendation that reflects the contribution required in fiscal year 2015 to achieve full funding of the pension plan over the next twenty-four years. The total contribution for fiscal year 2015 is \$17,712,000, an increase of \$1,755,000 over the fiscal year 2014 adopted budget. This cost is split between the budgets for the BOE, Town and other funds. The Town portion of the increase is \$1,316,250, of which, \$1,218,684 will be assumed by the General Fund. The increase in the required contribution reflects the investment losses in the Pension Fund, which are phased-in on an actuarial basis over five years, and the reduction in the assumption for future investment returns from 8.125% to 7.95%.



Public Schools

The fiscal year 2015 education budget totals \$145,888,757, an increase of \$5,832,858 or 4.2%.

- Salaries, which represent the largest portion (66%) of the education budget, are increasing \$2.3 million or 2.5%. This increase reflects a modest growth related to a contractual inflationary increase.
- Employee benefit expenses represent the second largest portion of the budget (20.3%). Medical expenses are increased \$2.8 million or 15% over prior year as a result of a significant growth in claims paid. Pension contributions are increased by \$439,000 or 11% over the prior year based upon the Board of Education's 25% share of the actuarial annual required contribution (ARC).
- A significant decline in tuition costs, \$460,000 or 14.6%, is expected. This expense category includes costs for: out-of-district special education student placements (net of excess cost reimbursement from the State), Inter district magnet tuition (net of Choice Program revenues) and tuition reimbursement for teachers and other professionals per contract.

Capital Financing

The annual appropriation for capital financing is determined by the Town's long range Capital Improvement Program. The Town's Capital Improvement Program (CIP) covering fiscal years 2015-2026 invests \$220,299,000 in West Hartford. While the CIP continues the long-term commitment to the maintenance of public schools, roads, storm sewers, parks and other public infrastructure, it also reflects the economic challenges we are currently facing. The capital program ensures that funding for the necessary maintenance of streets, schools and town buildings will be funded.

Capital financing costs include three components: principal and interest payments on General Obligation bonds that have already been issued; debt administration costs for the issuance of new debt; and, a transfer to the Capital Non-Recurring Expenditure (CNRE) Fund to finance capital projects that are not financed via long-term debt (per the guidelines of the Town's capital financing policy). Bonded debt service is \$13,914,144 for fiscal year 2015, comprised of \$9,940,000 in principal and \$3,974,144 in interest. Of this amount, \$13,564,144 is appropriated in the General Fund and will be transferred to the Town's Debt Service Fund. The balance of \$350,000 is funded by a bond premium received on the Town's issuance of General Obligation bonds in February 2014. The fiscal year 2015 budget includes a transfer of \$100,000 to the CNRE Fund, a reduction of \$494,000 from the prior year. Fiscal year 2015 debt service costs are partially offset by \$141,804 in school construction reimbursement grant revenue from the State of Connecticut.

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