

FISCAL POLICIES SECTION

The fiscal year 2014 budget includes a number of important policy issues that should be noted. These policy issues are summarized and briefly explained in this section of the budget document. These decisions impact the level of spending and taxation for fiscal year 2014 as we continue to balance the services that our residents expect with the level of property taxation necessary to finance those services. With reliance on the local property tax in Connecticut as the sole means allowed for financing local municipal and educational services and the growth in the Grand List insufficient to support increases in the cost of those services, the balancing between services and property taxation will continue to frame our annual budget process. Some of the policy issues reflected in the fiscal year 2014 budget include:

- Continuing to assume a 99% property tax collection rate and use of conservative revenue estimates with slight increases anticipated in building permit and conveyance tax revenue.
- Using the Governor's proposed State aid changes to determine estimates of State grants reduces revenue estimates by \$137,293.
- Not reflecting the Governor's proposal to exempt the first \$20,000 in a motor vehicle's assessed value from property taxes, which is optional for fiscal year 2014.
- Using a portion of the projected surplus in the current fiscal year to finance some CNRE funded projects (\$475,000) and a contribution to the Utilities Services Fund (\$50,000).
- Funding new full-time positions for zoning enforcement/planning and network engineering.
- Continuing to make the full actuarially recommended contribution to the Town's Pension Fund and a higher contribution to the retiree health reserve.
- Changing the self-insured program to utilize accumulated surplus in the program over the next five years to offset costs while preserving a \$1,500,000 reserve against potential large unknown claims.
- Adding new projects to the Capital Improvement program including construction of a new Charter Oak School, a new financial management system and radio system replacement.

The fiscal year 2014 General Fund budget totals \$241,438,694 and represents an increase of \$3,641,737 or 1.5% from fiscal year 2013. The municipal services portion of the budget totals \$87,396,882, an increase of \$2,541,398 or 3.0% from the current year budget. The education budget totals \$140,055,899, an increase of \$1,286,170 or 0.9%. The capital financing portion of the budget for both municipal and education services is \$13,985,913, a decrease from fiscal year 2013 of \$185,831 or 1.3%. 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, 2012 net taxable Grand List (prior to Board of Assessment appeals) totals \$5,893,896,106, an increase of \$13,564,933 or 0.2%. The real estate portion of the Grand List increased by \$15,534,255 or 0.3%. This increase was generated by new construction and the reclassification of two properties from tax-exempt to taxable status. This increase was offset by the adjudication of 83 tax appeals stemming from the 2011 revaluation with a total reduction in assessed value of \$9,470,040. The motor vehicle portion of the Grand List decreased by \$6,503,692, or 1.6%. This is largely due to the return of double digit depreciation in sharp contrast to our experience over the last several Grand List years. The business personal property component of the Grand List increased by \$4,534,370, or 2.8%, reflecting new capital investments in business furniture, fixtures and equipment and utility company cables and conduits. The net increase in the taxable Grand List generates \$480,097 in additional revenue for fiscal year 2014.

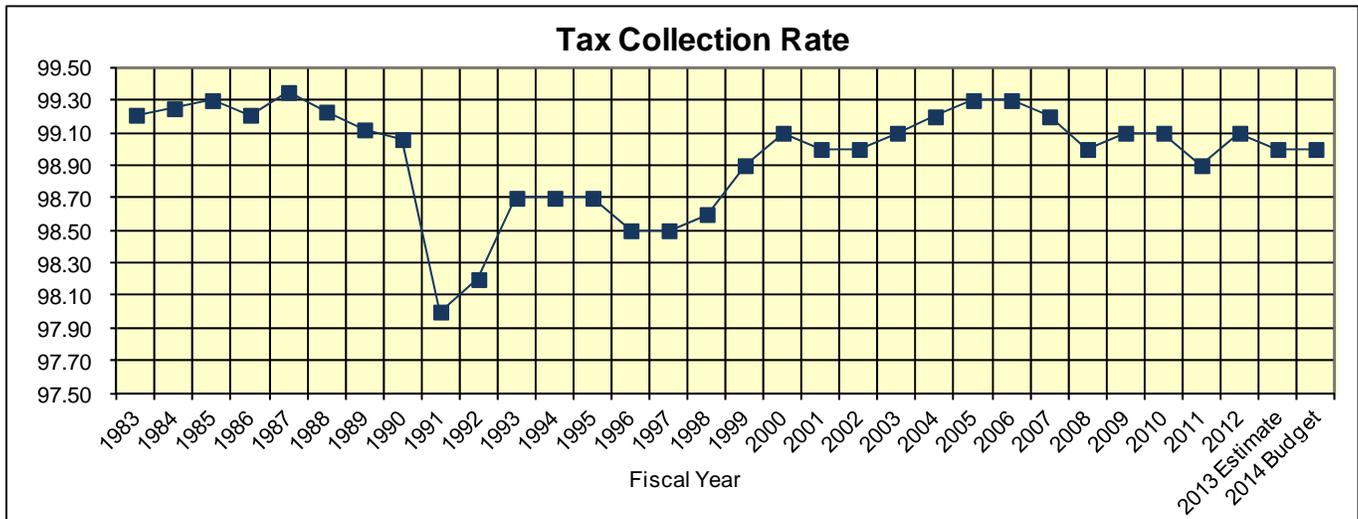
All other revenue sources in the fiscal year 2014 budget show a slight increase (\$12,675) from the current year budget. The growth in the Grand List is insufficient to provide the necessary revenue to support the increased cost of maintaining municipal and education services (\$3,641,737) in fiscal year 2014. In order to finance the budget, an increase in current year property tax revenue of \$3,629,062 or 1.8% is required. This equates to a mill rate of 36.30, an increase of 0.55 mills or 1.5% from the fiscal year 2013 mill rate.

SUMMARY OF REVENUES

	FY 2013 <u>Adopted</u>	FY 2014 <u>Adopted</u>	Increase/ <u>(Decrease)</u>	Percent <u>Change</u>
Current Property Taxes	\$206,647,364	\$210,276,426	\$3,629,062	1.8%
Other Property Taxes	3,400,000	3,400,000	-	-
Intergovernmental	21,372,330	20,884,963	(487,367)	-2.3%
Charges for Services	4,560,461	4,919,819	359,358	7.9%
Miscellaneous Revenue	971,400	884,500	(86,900)	-8.9%
Transfers from Other Funds	<u>845,402</u>	<u>1,072,986</u>	<u>227,584</u>	26.9%
TOTAL	<u>\$237,796,957</u>	<u>\$241,438,694</u>	<u>\$3,641,737</u>	1.5%

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, 2012 net taxable Grand List (prior to Board of Assessment appeals) totals \$5,893,896,106, an increase of \$13,564,933 or 0.23% and generates \$480,097 in additional tax revenue for fiscal year 2014. 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. While the deterioration of the economy was expected to affect the actual collection of property taxes, especially as unemployment increased and the real estate market softened, this has not been our experience. The Town assumed a 99.0% collection rate in developing the current year budget. The collection of the second installment of property taxes on real estate in January 2013 was consistent with our experience in prior years and the 99.0% collection rate will be achieved. Property tax collections fell to 98% during the 1991-1992 recession. A one-tenth change in the collection rate equates to \$210,276 in revenue. The fiscal year 2014 budget continues the 99.0% collection rate assumption.



Intergovernmental Revenue

Intergovernmental revenue to West Hartford for fiscal year 2014 reflects the proposals outlined in the Governor’s proposed fiscal year 2014 State budget. These proposals eliminate several State grant programs and shift the funding to other existing State grants and a new “Hold Harmless” grant intended to compensate municipalities for any loss of revenue from these proposed changes. The State grant programs recommended to be eliminated include the following grants totaling \$1,922,748:

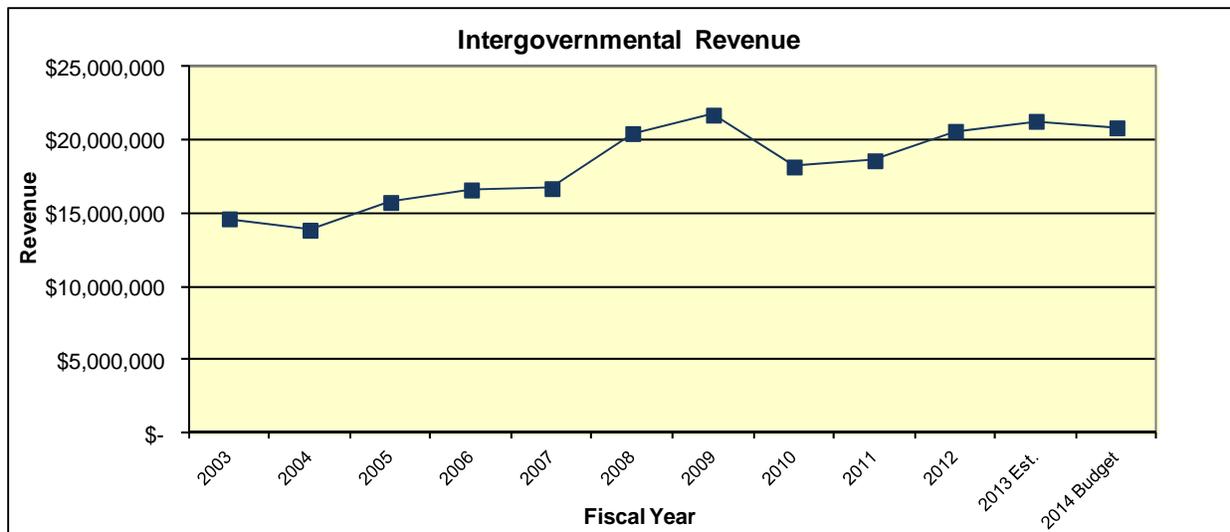
PILOT: State Owned Property	\$268,886
Pequot Grant	242,880
Public School Transportation	238,798
Manufacturers Transition Grant	639,473
Municipal Revenue Sharing	<u>532,711</u>
	\$1,922,748

The Governor has proposed increasing funding for the following State grant programs which represent a total increase of \$1,785,455 in revenue for the Town in fiscal year 2014:

Town Aid Roads	\$351,203
LoCIP Grant *	241,341
ECS Grant	604,679
Hold Harmless Grant	<u>588,232</u>
	\$1,785,455

*Budgeted as Transfer In

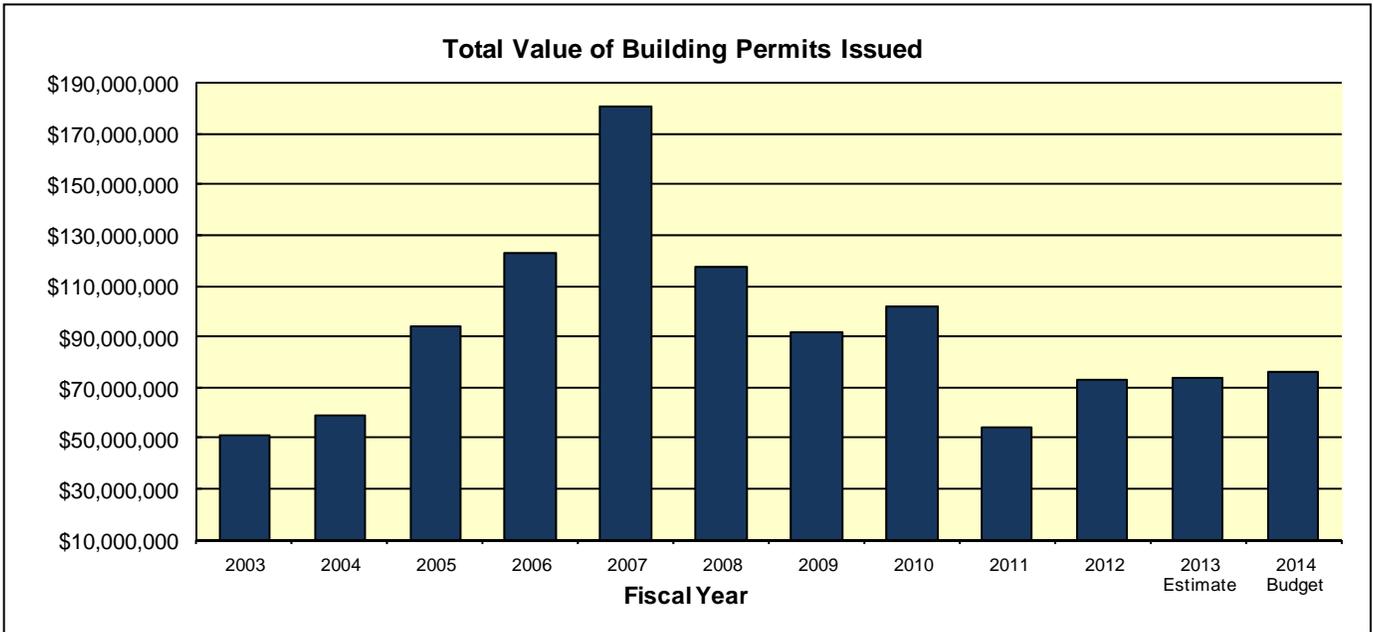
The Governor has also proposed exempting the first \$20,000 of assessed value on motor vehicles from property taxes. This proposal would be a local option to implement for fiscal year 2014 and would become mandatory for fiscal year 2015. If this proposal is applied to the 2012 Grand List, a total of 43,867 motor vehicles would be fully exempt from property taxes, representing a reduction in taxable motor vehicle value of \$380,778,006. There would also be a reduction of \$50,041,000 in the value of the supplemental motor vehicle Grant List. Together, the estimated loss in property tax revenue would be \$14,978,000. To raise the same amount of revenue to support the budget with this reduction in Grand List value, the mill rate would increase 2.77 mills for real estate and personal property taxpayers, an increase of 7.7%. The Town’s budget for fiscal year 2014 does not reflect the implementation of the Governor’s proposal for motor vehicle taxation.



Charges for Services

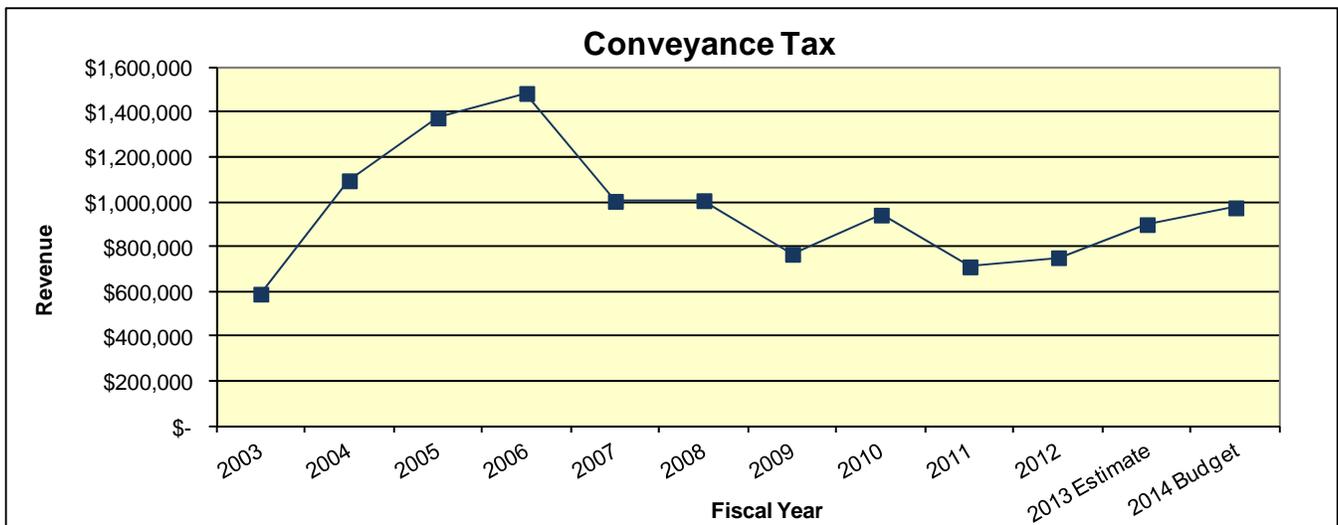
Building Permits

Estimated building permit revenue is expected to reach \$1,300,000 for fiscal year 2014, an increase of \$100,000. The building permit fee is calculated based upon the value of the improvements. Permit revenue for fiscal year 2013 was budgeted to be \$1,200,000, but is now projected to total \$1,260,000. The value of permits is expected to increase in fiscal year 2014 due to improving economic conditions and construction of several specific investment projects.



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 2014 budget increases conveyance tax revenue by \$175,000 based upon the level of activity in the current fiscal year. The fiscal year 2014 budget also increases land records fees by \$69,000 reflecting the projected activity for the current fiscal year.



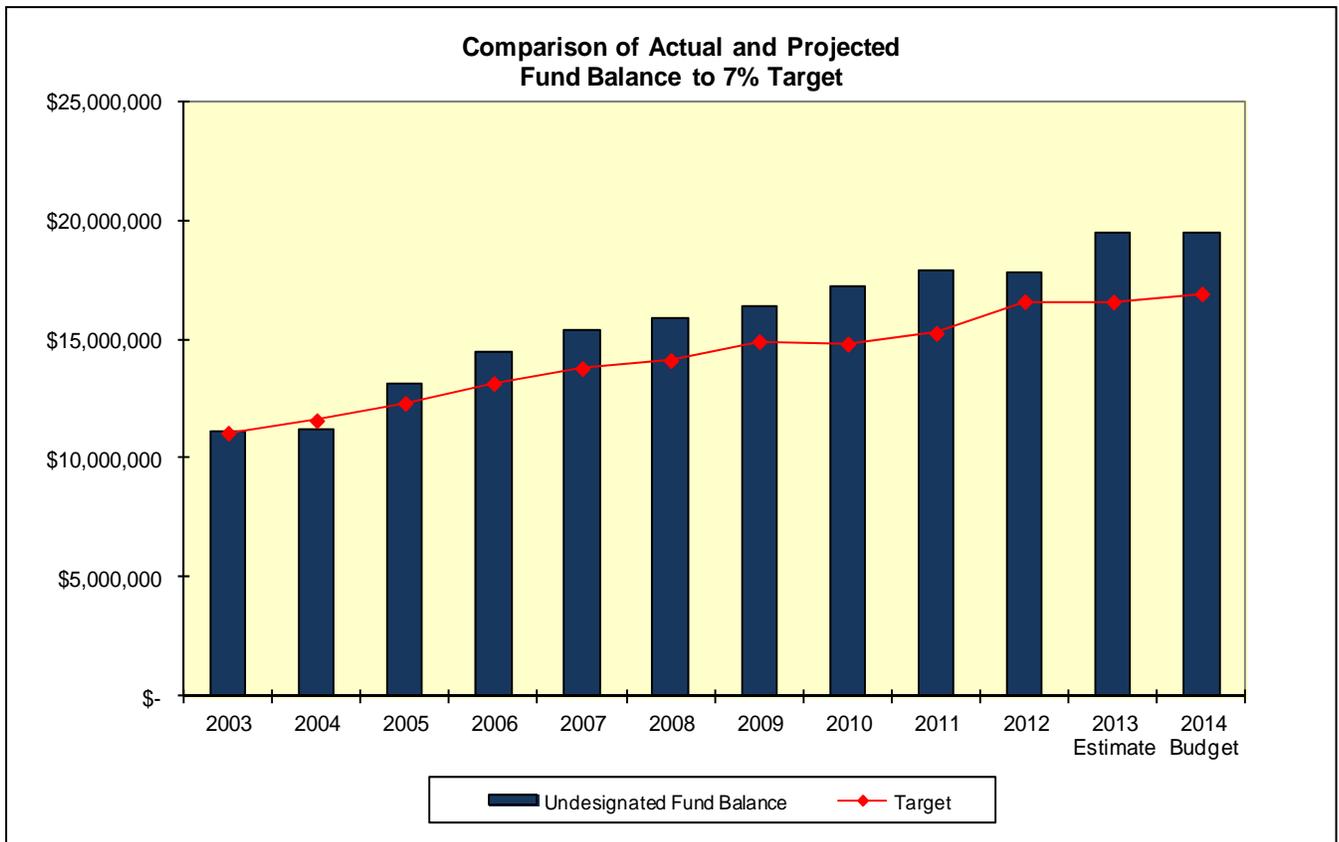
Miscellaneous Revenues

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 \$550,000 in the fiscal year 2013 adopted budget based upon an assumption of interest rates increasing as part of the economic recovery. Unfortunately, interest rates have continued to decline during the current fiscal year and anticipated revenue from investment income is projected to be only \$450,000. Historically, the Town invested its available cash in the State Treasurer’s Short-Term Investment Fund which is currently yielding approximately 0.10%. Due to these low rates, the Town is investing in money market accounts at five financial institutions at rates between 0.20% and 0.75% to provide additional investment income above what STIF would have generated. Interest income for fiscal year 2014 is estimated to be \$500,000.

Use of Fund Balance

Fund balance is cash that the Town has accumulated from prior year budgets when revenues exceeded actual expenditures. As of June 30, 2012, undesignated fund balance totaled \$17,832,948 or 7.53% of General Fund expenditures. The fiscal year 2014 budget does not anticipate any use of fund balance to cover operating expenditures.



SUMMARY OF EXPENDITURES

	<u>FY 2013</u> <u>Adopted</u>	<u>FY 2014</u> <u>Adopted</u>	<u>Increase/</u> <u>(Decrease)</u>	<u>Percent</u> <u>Change</u>
Town Services				
Wages & Salaries	\$37,279,923	\$37,571,837	\$291,914	0.8%
Operating Expense	21,121,353	21,799,584	678,231	3.2%
Capital Equipment	88,523	-	(88,523)	-100.0%
Fringe Benefits & Insurance	<u>26,365,685</u>	<u>28,025,461</u>	<u>1,659,776</u>	6.3%
Total Town Services	\$84,855,484	\$87,396,882	\$2,541,398	3.0%
 Board of Education	 \$138,769,729	 \$140,055,899	 \$1,286,170	 0.9%
 Capital Financing	 <u>\$14,171,744</u>	 <u>\$13,985,913</u>	 <u>(\$185,831)</u>	 -1.3%
 Total Expenditures	 <u>\$237,796,957</u>	 <u>\$241,438,694</u>	 <u>\$3,641,737</u>	 1.5%

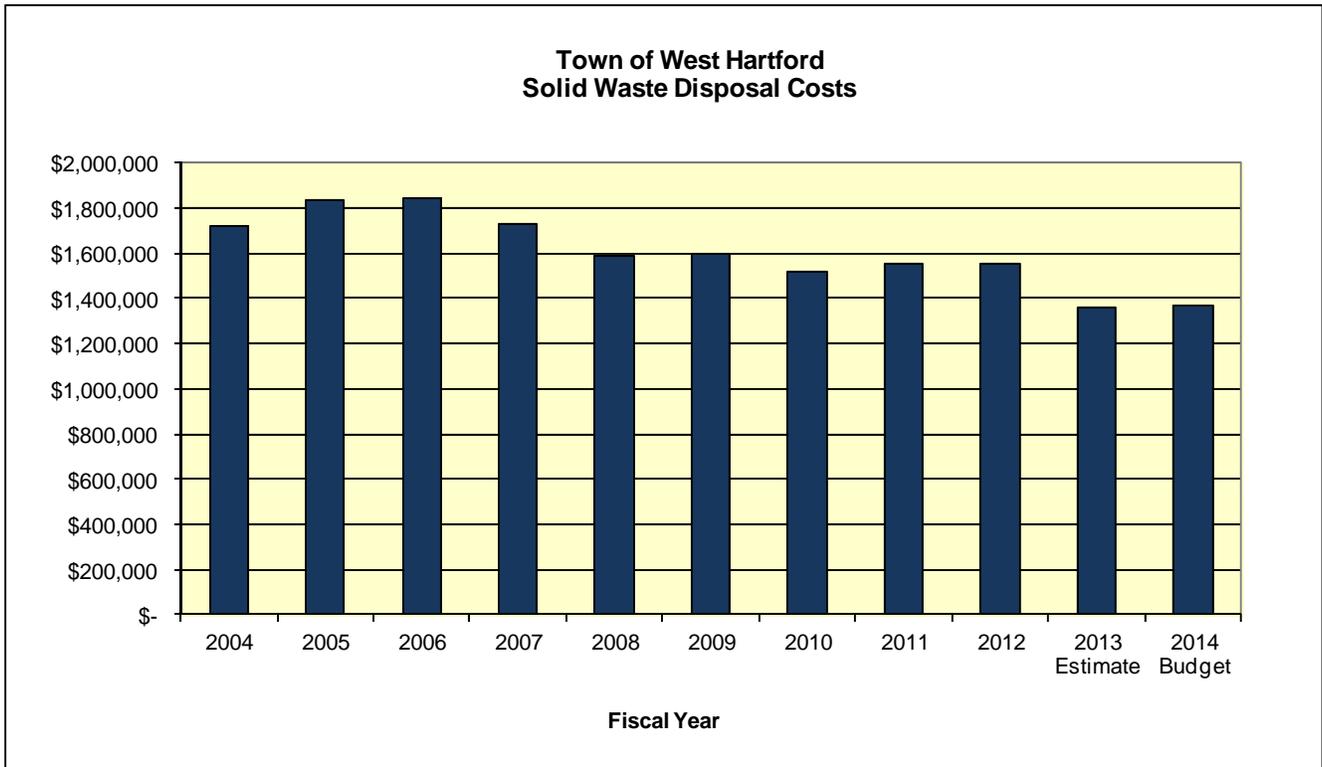
Town Services

Wages & Salaries

Regular payroll totals \$31,014,677 and represents the wages and salaries associated with all full-time employees. With the exception of employees working in the Public Works Department represented by the AFSCME union, all collective bargaining agreements will expire by the start of fiscal year 2014. The budget for fiscal year 2014 does not include cost-of-living increases for employees. Considerable turnover in the Fire Department from retirements reduces budgeted regular payroll costs by \$176,611. A Police Officer position (\$79,132) is transferred from the Parking Lot Fund to the General Fund. The fiscal year 2014 budget includes an assumption of a hiring lag in the Police Department of \$200,000, a decrease of \$100,000 from the fiscal year 2013 budget assumption. The fiscal year 2014 budget includes funding for a new Assistant Zoning Officer/Junior Planner position (\$52,000) and a new Network Engineer position (\$90,000) to be funded between the Town and BOE. The balance of wage and salary costs (\$6,557,160) for part-time employee wages, overtime payments and holiday and education premium pay have been reduced by \$34,367.

Operating Expenses

The increased cost of operating expenses (\$678,231) is primarily the result of rising energy and utility costs. 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 2014 increases \$296,300. Electricity and natural gas costs increase by \$112,704 due to anticipated rate increases and a reduced use of reserve funds (\$50,000) in fiscal year 2014 compared to use of reserve in fiscal year 2013 (\$100,000) to fund utility costs. There is an increase in the cost of gasoline (\$107,102) as prices have moved higher. The Town’s contract with the Connecticut Resource Recovery Authority (CRRA) for the disposal of solid waste and recyclables expired on November 1, 2012. The Town negotiated a new contract with Covanta which reduced the tipping fee from \$69/ton to \$57/ton. This savings is seen in the solid waste disposal appropriation. The fiscal year 2014 budget also includes a new appropriation (\$100,000) for Microsoft licenses to allow the Town to upgrade desktop and network software releases. Most of the Town’s Microsoft software has not been updated in almost ten years.



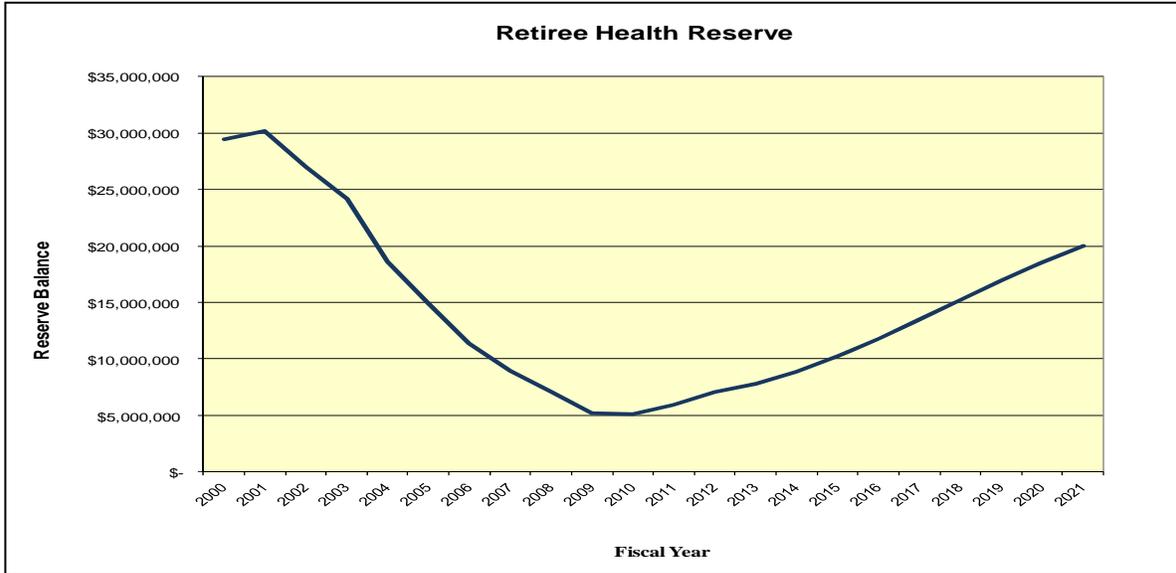
Employee Benefits & Insurance

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 \$376,385 in fiscal year 2014. Town Health Program expense increases by \$647,382 in fiscal year 2014 reflecting the General Fund portion of the \$500,000 increase in the contribution for retiree health (as discussed below) and active employee health care costs. The contribution to the workers compensation program is increased by \$45,025 reflecting higher claims activity. The contributions to the remaining programs are reduced from fiscal year 2013 as a result of stable costs and the use of surpluses in the programs: heart & hypertension program (\$52,174), self-insured program (\$230,542) and insured program (\$33,306).

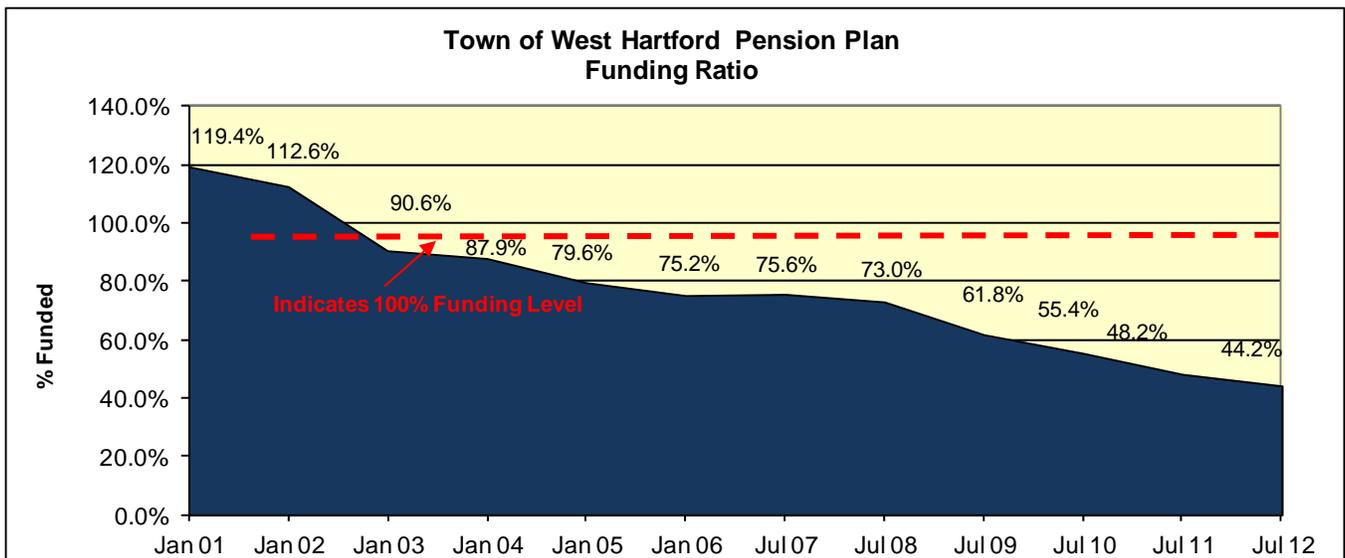
Retiree Medical & Pension Benefits

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 \$8,630,000 in FY 2014 split between the Town (\$6,122,000) and Public Schools (\$2,508,000). This increase is \$250,000 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.



Annual contributions to the Pension Fund were resumed by the Town in 2003 when its over-funded status was reversed due to investment performance. As the liability for post retirement benefits continued to increase, changes were made to the eligibility requirements for new town employees. These changes added ten (10) years to the age requirement for early and normal retirement for non-public safety employees and five (5) years of service for public safety employees. These changes have already begun to moderate and reduce the normal cost of post retirement benefits, although the past service costs continue to increase as a result of investment losses from the stock market decline. The contribution to the Pension Fund is based on an actuarial recommendation that reflects the contribution required in fiscal year 2014 to achieve full funding of the pension plan over the next twenty-five years. The total contribution for fiscal year 2014 is \$15,957,000, an increase of \$1,790,000 from fiscal year 2013 and is split between the budgets for the BOE, Town and other funds. The Town General Fund budget portion of the increase is \$1,221,009. The increase in the required contribution reflects the investment losses in the Pension Fund as a result of the recent economic environment, which are phased-in on an actuarial basis over five years, and the reduction in the assumption for future investment returns from 8.25% to 8.125%.



Public Schools

The fiscal year 2014 education budget totals \$140,055,899, an increase of \$1,286,170 or 0.9%.

- Salaries, which represent the largest portion (67%) of the education budget, are increasing by \$2,750,000 or 3.0%. This increase reflects limited changes in teacher and other union salaries in 2013-2014.
- Employee benefit expense is decreasing by \$1,740,000 or 6.2%. Medical expenses are decreasing by \$2,144,000 or 10.2% based upon favorable health claims experience in the current fiscal year and no increase in the contribution for the retiree health care reserve fund. The General Fund contribution to the Pension Fund increases by \$414,000 or 11.6% based upon the recently completed actuarial valuation reflecting the continued phasing in of investment losses from prior years and changes to the valuation assumptions of future investment earnings.
- Tuition costs represent a slight reduction of \$174,000 and utility cost are reduced by \$177,000 reflecting stable usage, reduced energy prices and the use of surplus funds in the Utility Services Fund. Transportation costs increase \$240,000 based upon the new transportation 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 2014-2025 invests \$216,169,000 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 includes 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). The contribution to the CNRE Fund for fiscal year 2014 is \$594,000. An additional \$475,000 in funding for CNRE projects will be provided through estimated savings in the current fiscal year budget. The principal and interest payments on General Obligation bonds that have already been issued totals \$13,301,913 in fiscal year 2014, \$179,831 less than the current year appropriation. Debt service includes principal payments of \$9,755,000 and \$3,546,913 of interest payments.