

**FISCAL POLICIES SECTION**

The Town of West Hartford is highly regarded by residents, business owners and visitors due to the quality and diversity of services it provides and the Town's premier education system. The primary goal of this budget is to maintain these amenities while minimizing the financial impact to the Town's taxpayers. With this goal in mind, the fiscal year 2016 budget represents the culmination of a structured review and approval process which considered the Town's finances and desired deliverables.

It is important to note that while this proposal primarily reflects a current services budget, costs associated with the provision of those same services are subject to structural cost increases. As in any organization, public or private, the cost to provide the same services a year from now will rise due to increased costs for supplies and materials, employee wages, employee benefits (i.e., health insurance, pension and other post-retirement employee benefits), and costs associated with necessary capital investments. Therefore, as a result of an expenditure driven budget, a careful and frequent examination of all expenditures and revenues is necessary to mitigate any tax increase associated with providing the same level of services.

One significant area currently under review, which has the greatest impact on current and future Town expenditures, is labor contracts. While labor negotiations continue with the majority of Town unions, there is optimism that when settled, the resolution will help the Town diminish the impact of future wage and benefit costs, as well as provide Town employees with wages and benefits in line with the economic times. Service and maintenance contracts are constantly increasing in cost therefore the Town continuously looks at areas where savings can be achieved through re-bidding existing services and negotiating multiyear contracts in order to lessen future price increases. In addition, opportunities to reduce operating expenses are constantly explored through capital investments such as the continued installation of fiber that has linked all Town buildings and is currently being expanded to the public schools (the Board of Education currently leases fiber), generating a savings for taxpayers; or, the implementation of projects associated with energy efficiencies. The 2016 Capital Improvement Program includes a comprehensive energy conservation project consisting of installation of energy efficient lighting, building energy management systems, and replacement of inefficient street lights. Once these projects are fully implemented, the energy savings are estimated to offset the cost of the debt service payments on the bonds issued, as well as provide a significant cost reduction to electric costs townwide. In line with reducing operating costs, the Town has signed a letter of intent to purchase power from a solar farm to be constructed in CT in the Summer or Fall of 2015. It is anticipated that the solar farm will be operational by the end of calendar year 2015 and will generate sufficient energy to offset approximately 15% of the Town's electric needs annually. Since solar power will be generated and provided to the Town through a virtual net metering system, the Town and BOE will receive significant credits related to the project which will further reduce energy costs.

These types of investments are essential in order to mitigate local tax increases since the primary revenue source for the Town is property taxes. Total current year property tax collections account for 87.0% of all revenues received by the Town, while other tax revenue accounts for 1.6%. Intergovernmental revenue (State Aid) provides 8.6% of the Town's revenue. All other non-tax categories such as building permits, fees and fines, charges for services, etc. make up the remaining 2.8% of operating revenue. As a result of this significant reliance on local taxes to finance the Town's operating budget, it is imperative that all non-tax revenue categories are reviewed and maximized, where prudent.

The State of Connecticut is also challenged by difficult budget decisions. The Governor's budget proposal reflects a reduction of approximately \$100,000 in State Aid to the Town. There is concern of further erosion of State Aid as the Governor's proposed budget advances through the legislative adoption process. The results will be unknown until after the adoption of the Town's budget. Accordingly, this budget reflects the best information to date, the Governor's proposed budget. The Town's Grand List has experienced a slight increase of 0.31%. Other non-current year tax categories such as Supplemental Motor Vehicle, Prior Year Taxes and Interest and Liens are all projected to increase. Building permits are estimated to increase due to new construction projects slated to start next fiscal year. These increases, while modest, will provide some relief to existing taxpayers; however, inevitably, an overall tax increase is necessary to balance this budget.

This budget maintains current services with no program eliminations or reductions. The following assumptions and significant changes are included in the fiscal year 2016 budget:

- A 99.0% tax collection rate;
- Grand List growth of approximately \$18.6 million or 0.31% over the prior year;
- Modest increases in non-current year tax revenue estimates;
- Inclusion of the Governor's fiscal year 2016 proposal for State Aid;
- Reallocation of the salaries and benefit costs associated with two police officer positions to the Parking Lot Fund;
- Participation in a virtual net metering project, which will result in significant electric cost savings;
- Full funding of the actuarially determined contribution to the Town's Pension Plan; and
- An increase in the contribution to the Retiree Health Reserve.

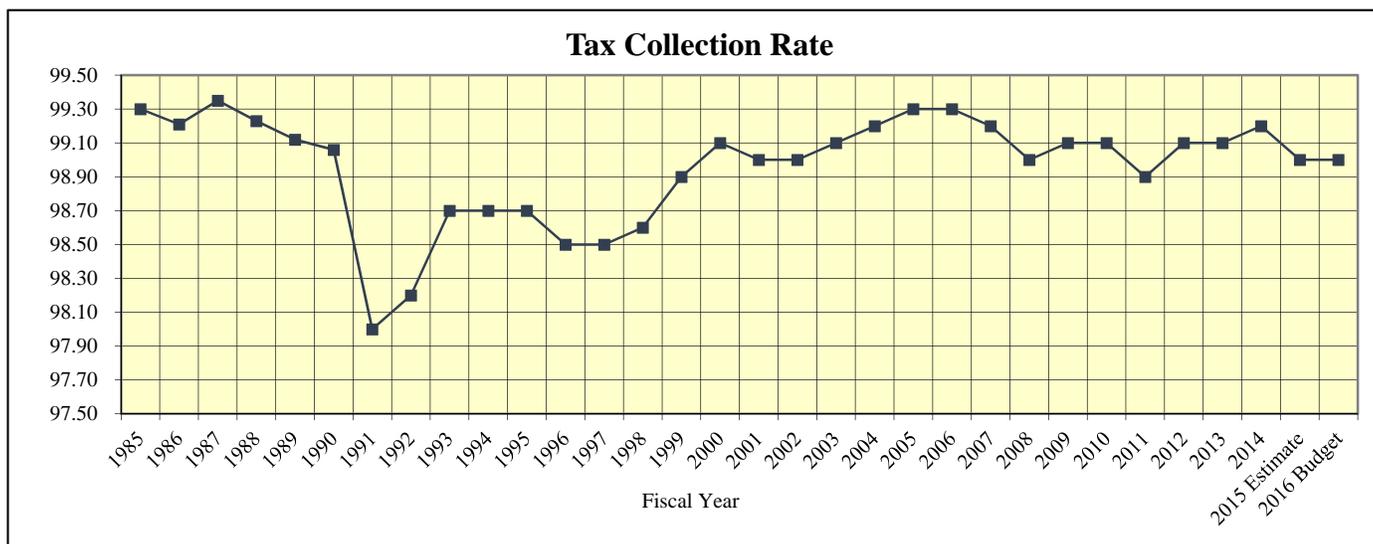
The fiscal year 2016 General Fund budget totals \$257,514,043 and represents an expenditure increase of \$6,257,177 or 2.5% from fiscal year 2015. The municipal services portion of the budget totals \$94,023,635, an increase of \$2,049,670 or 2.6% from the current year budget. The education budget totals \$148,370,424, an increase of \$2,481,667 or 1.7%. The capital financing portion of the budget for both municipal and education services is \$15,119,984, an increase from fiscal year 2015 of \$1,365,840 or 9.9%. In order to finance the budget, an increase in current year property tax revenue of \$6,222,045 or 2.9% is required. Of this amount, it is estimated \$718,374 will be generated as a result of growth in the Grand List. This additional tax revenue from Grand List growth effectively reduces the tax increase for existing taxpayers to 2.5%. All other non-current year tax revenue sources in the fiscal year 2016 budget show a net increase of \$35,132 from the current year adopted budget. The growth in the Grand List is not sufficient to provide the necessary additional revenue to support the cost of maintaining municipal and education services in fiscal year 2016. A mill rate of 38.31 is needed to generate property tax revenue, representing an increase of 0.94 mills or 2.5% from the current mill rate.

**SUMMARY OF REVENUES**

	FY 2015 <u>Adopted</u>	FY 2016 <u>Adopted</u>	Increase/ <u>(Decrease)</u>	Percent <u>Change</u>
Current Year Property Taxes	\$217,737,947	\$223,959,992	\$6,222,045	2.9%
Other Property Taxes	3,775,000	4,025,000	250,000	6.6%
Intergovernmental	22,553,908	22,198,732	(355,176)	-1.6%
Charges for Services	5,185,597	5,205,109	19,512	0.4%
Miscellaneous Revenue	979,419	1,086,500	107,081	10.9%
Transfers from Other Funds	<u>1,024,995</u>	<u>1,038,710</u>	<u>13,715</u>	1.3%
<b>TOTAL</b>	<b>\$251,256,866</b>	<b>\$257,514,043</b>	<b>\$6,257,177</b>	<b>2.5%</b>

**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 mill 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, 2014 net taxable Grand List totals \$5,947,138,136; an increase of \$18,577,027 or 0.31%, which is expected to generate \$718,374 in additional revenue for FY 2016. 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 collection of the second installment of real estate property taxes in January 2015 was consistent with experience in prior years and it is anticipated that the 99.0% collection rate will be achieved in fiscal year 2015. The fiscal year 2016 budget maintains the 99.0% collection rate assumption. A one-tenth change in the collection rate for fiscal year 2016 would equate to \$228,309 in revenue.

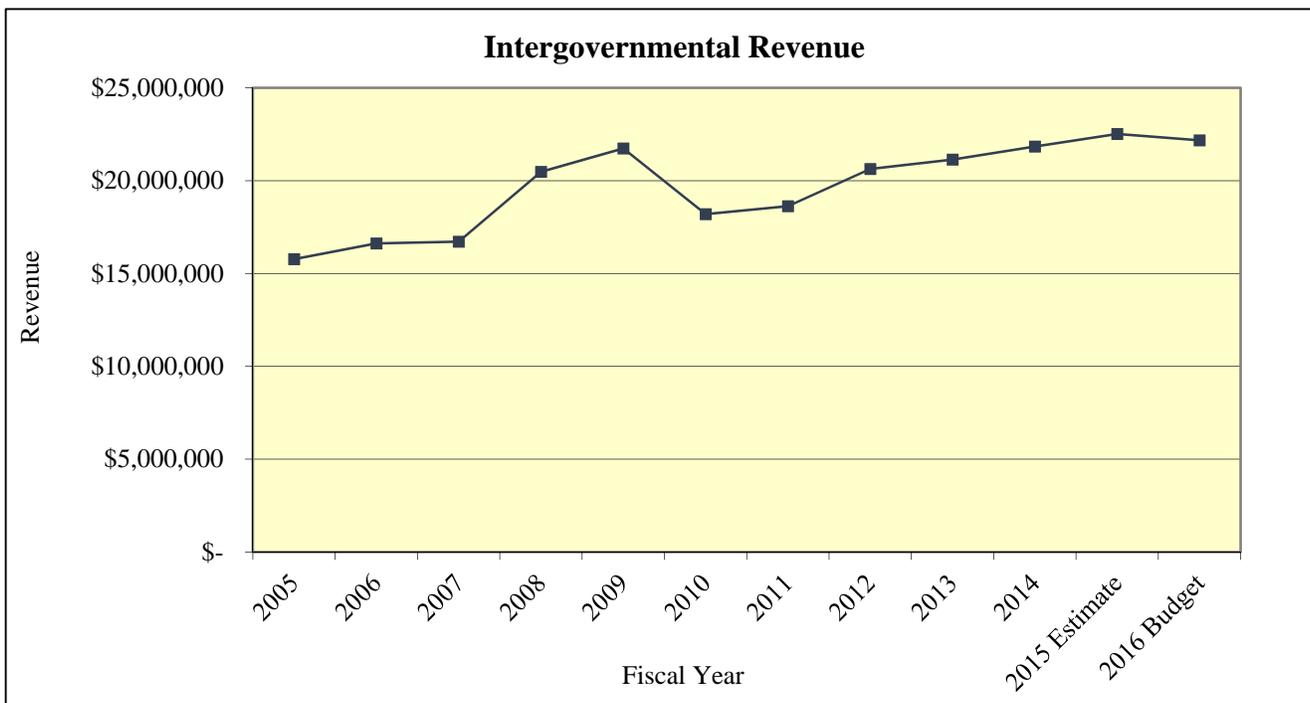


**Intergovernmental Revenue**

Estimated Intergovernmental Revenue to West Hartford reflects the Governor’s proposed fiscal year 2016 State budget. The Town’s fiscal year 2015 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 2015 Adopted</u>	<u>FY 2016 Adopted</u>	<u>Increase/ (Decrease)</u>
ECS Grant	\$ 18,181,174	\$ 18,181,174	\$ -
LoCIP Program*	459,237	436,682	(22,555)
Municipal Tax Relief (previously MRSA)	757,839	805,784	47,945
Payment in Lieu of Taxes (PILOT)	1,332,388	1,319,151	(13,237)
Pequot/Mohegan Fund Grant	219,669	211,359	(8,310)
Public School Transportation	256,021	181,304	(74,717)
Town Aid Road	689,311	687,452	(1,859)
Other State Revenue	<u>818,255</u>	<u>790,508</u>	<u>(27,747)</u>
Total	\$ 22,713,894	\$ 22,613,414	\$ (100,480)

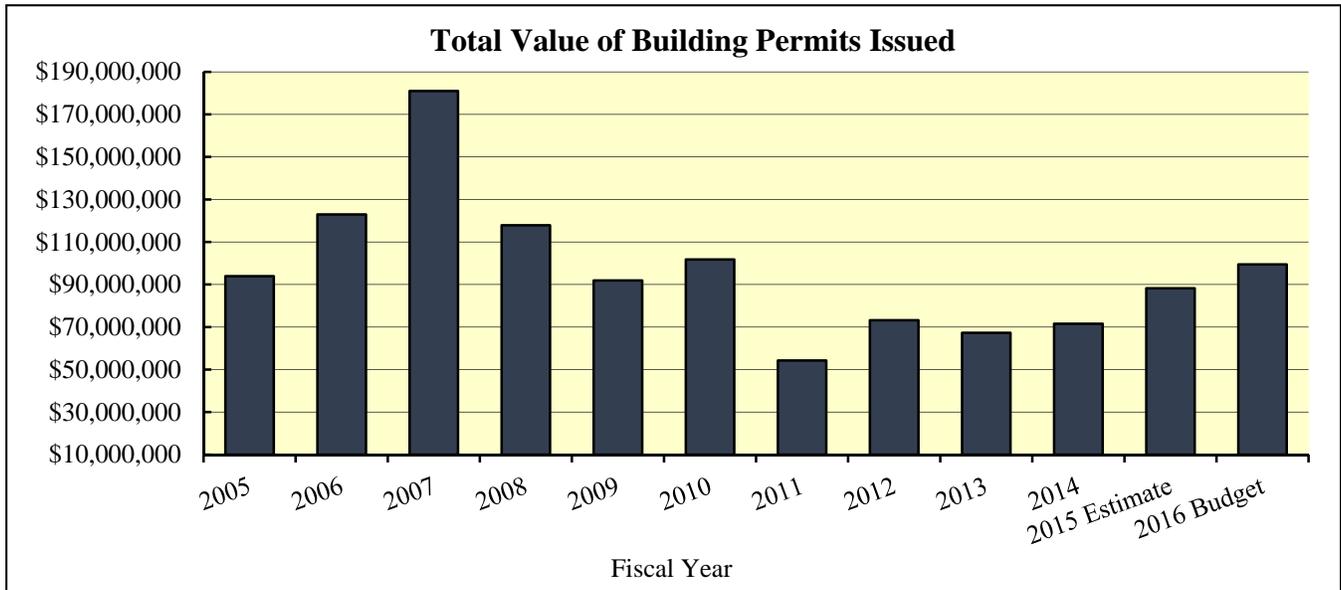
\* Accounted for as a Transfer In from the Capital Projects Fund.



**Charges for Services**

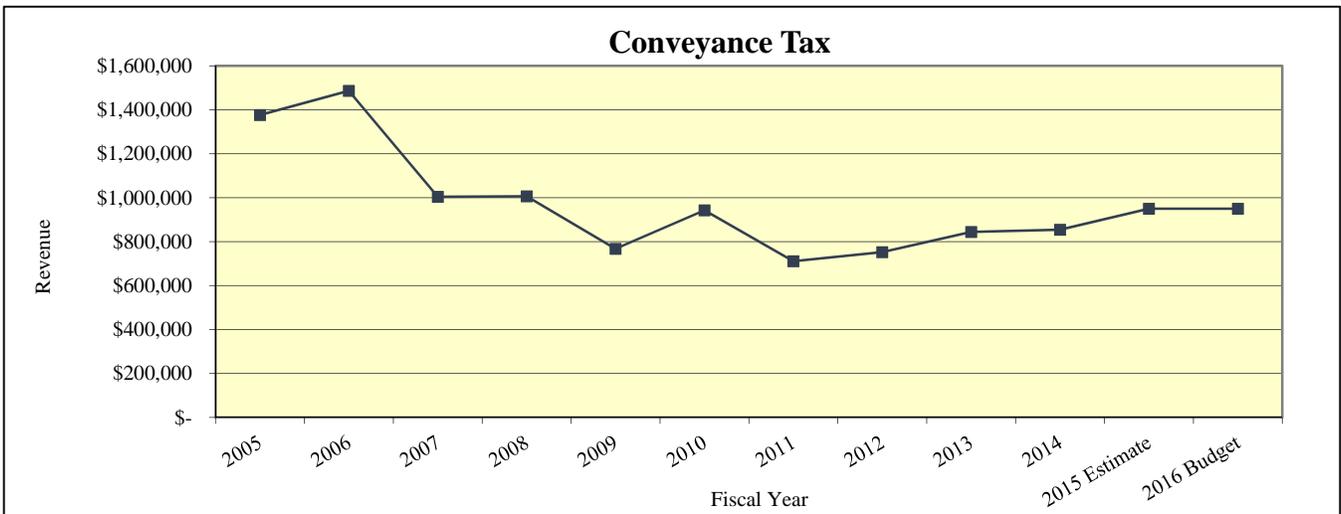
**Building Permits**

Estimated building permit revenue is expected to reach \$1,700,000 for fiscal year 2016, an increase of \$200,000 over the fiscal year 2015 adopted budget. The building permit fee is calculated based upon the value of new construction or building improvements. Permit revenue for fiscal year 2015 was budgeted at \$1,500,000 and is projected to reach this target. The value of permits is expected to increase in fiscal year 2016 due to improving economic conditions and a number of significant residential housing and commercial construction projects that are in process.



**Real Estate Transactions**

The Town receives fees established by the State of Connecticut for real estate transactions. Land records fee revenue is received for the actual recording of legal documents and conveyance taxes are charged on the transfer of all real estate. The fiscal year 2016 budget reduces conveyance tax revenue to \$950,000 based upon the level of activity in the current fiscal year. The fiscal year 2016 budget reduces the estimated amount for land records fee revenue by \$125,000, consistent with current year and fiscal year 2014 experience. Land records fee revenue had achieved higher levels in prior years due to the volume of mortgage refinancings. As the refinancings have slowed, so has land records fee revenue.



**Miscellaneous Revenues**

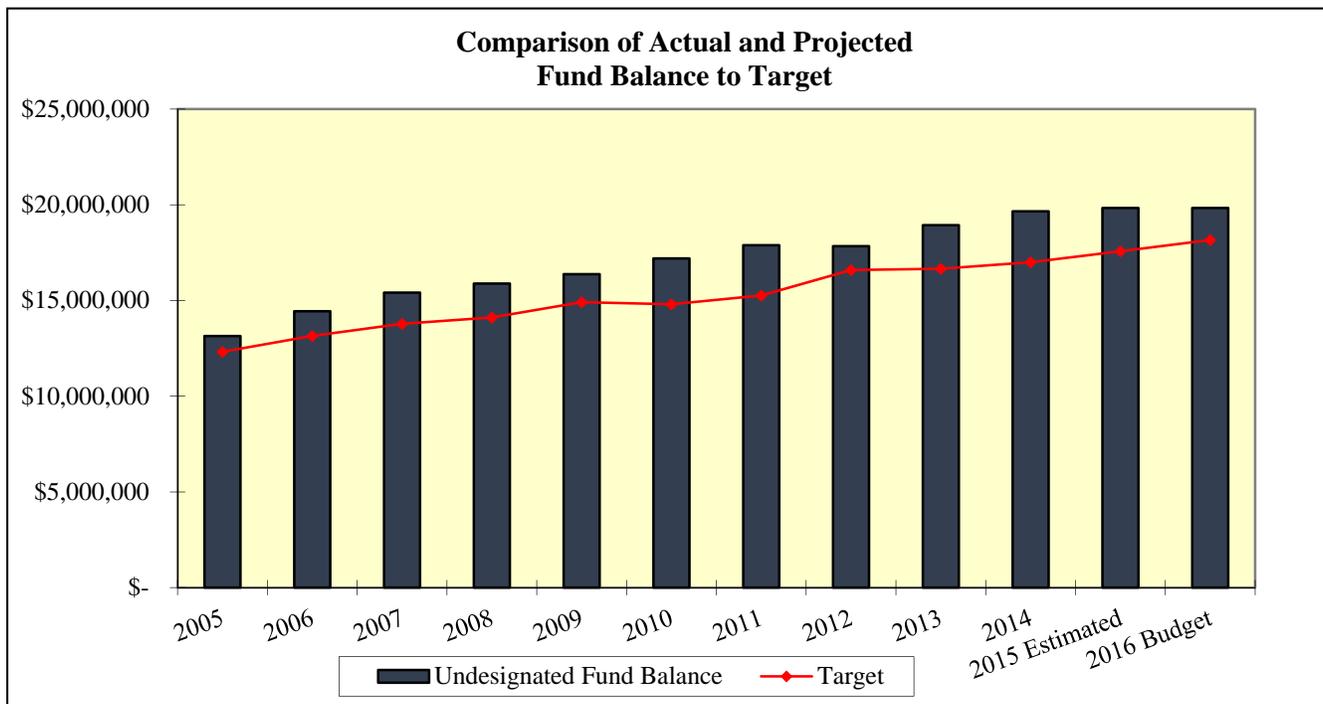
**Investment Income**

The Town invests available cash to generate interest income, a source of non-property tax revenue in the annual budget. The estimated fiscal year 2016 interest income revenue is consistent with the fiscal year 2015 budget and experience after six months of the fiscal year. Historically, the Town invested all available cash in the State Treasurer’s Short-Term Investment Fund (STIF), which is currently yielding approximately 0.15%. Due to this low rate, 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 also employed a 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 2016 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, 2014, undesignated fund balance was \$19,658,041 or 8.1% of General Fund expenditures. The fiscal year 2016 budget does not anticipate any use of fund balance to cover operating expenditures.



**SUMMARY OF EXPENDITURES**

	<u>FY 2015</u> <u>Adopted</u>	<u>FY 2016</u> <u>Adopted</u>	<u>Increase/</u> <u>(Decrease)</u>	<u>Percent</u> <u>Change</u>
<u>Town Services</u>				
Wages & Salaries	\$38,395,349	\$38,615,178	\$219,829	0.6%
Operating Expense	22,278,013	22,831,545	553,532	2.5%
Capital Equipment	21,185		(21,185)	-100.0%
Fringe Benefits & Insurance	<u>30,919,418</u>	<u>32,576,912</u>	<u>1,657,494</u>	5.4%
Total Town Services	\$91,613,965	\$94,023,635	\$2,409,670	2.6%
Board of Education	\$145,888,757	\$148,370,424	\$2,481,667	1.7%
Capital Financing	<u>\$13,754,144</u>	<u>\$15,119,984</u>	<u>\$1,365,840</u>	9.9%
Total Expenditures	<u>\$251,256,866</u>	<u>\$257,514,043</u>	<u>\$6,257,177</u>	2.5%

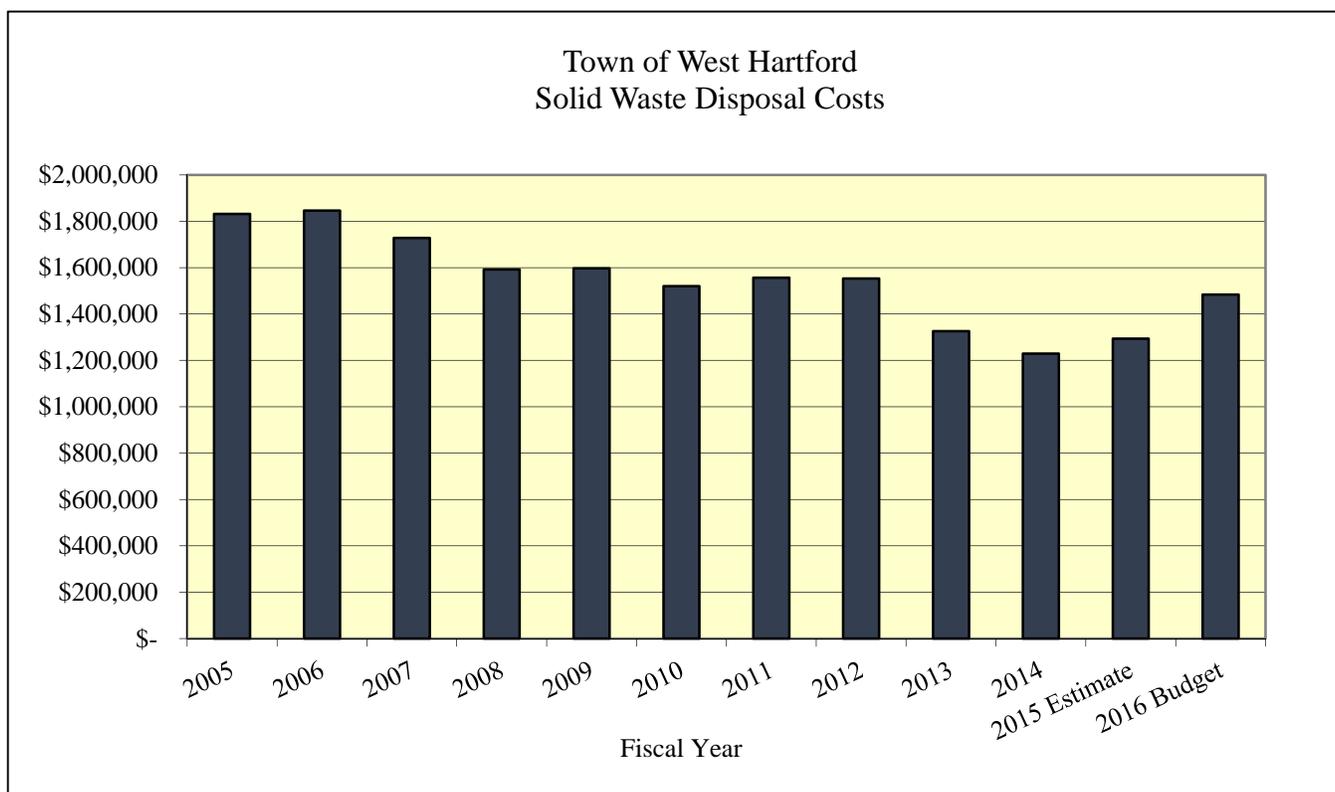
**Town Services**

**Wages & Salaries**

Regular payroll totals \$31,851,767; an increase of \$411,224 or 1.3% over the fiscal year 2015 adopted budget. 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 payroll budget does not include other cost of living adjustments as all other collective bargaining agreements have expired. A separate contingency has been established for potential wage settlements. This budget includes the addition of an Administrative Assistant position in the Police Department, offset by a reduction in temporary payroll. In addition, two police officers who are assigned to patrol West Hartford Center have been reallocated from the General Fund to the Parking Lot Fund, consistent with their responsibilities. Within the Human and Leisure Services department, 1.23 full-time equivalents have been transferred to the General Fund from the Leisure Services Fund, based upon duties performed for General Fund programs. The budget includes funding of an Assistant Zoning Enforcement Officer, effective January 1, 2016, which had been held vacant in fiscal year 2015. A hiring lag in the Police Department is budgeted at \$150,000, a reduction of \$30,000 from the fiscal year 2015 budget assumption. A vacant Building Maintenance Technician position in the Facilities Services department is unfunded and will be backfilled with temporary payroll. On an overall basis, the appropriation for temporary payroll in the fiscal year 2016 budget is consistent with the prior year. Increases in Public Works (\$36,000) and the Library (\$33,000) are offset by reductions in the Police department (\$35,000), Community Services (\$15,000), Registrar of Voters (\$8,000) and Human and Leisure Services (\$10,000). These fluctuations result from anticipated workflow needs and priorities amongst Town departments. The overtime appropriation increases \$19,000 in the Facilities Department consistent with overtime experience and workflow demands, offset by one-time grant funded overtime in the Police department of approximately \$196,000.

**Operating Expenses**

Operating expenses have increased \$553,532 or 2.5% over the 2015 adopted budget. The Town’s contribution to the Metropolitan District Commission (MDC) for sewer services, which is based upon the MDC’s adopted budget and the Town’s tax levy as a proportion of all the MDC members’ tax levy, increases \$474,500. Contractual services for refuse and recycling collection (\$98,255) and solid waste disposal (\$101,288) increase within the Public Works department. Due to the rising cost of salt, the snow removal supplies budget has been increased \$30,000 and an additional \$22,850 is included in vehicle and equipment expense in response to vehicle repair costs. In response to reduced demand, \$36,579 has been removed from the regular Dial-A-Ride program. Utility costs decrease \$59,930 due to anticipated rates, average consumption and implementation of a new energy conservation capital project which is expected to reduce Town Operating Expenses \$100,000.



### **Employee Benefits & Insurance**

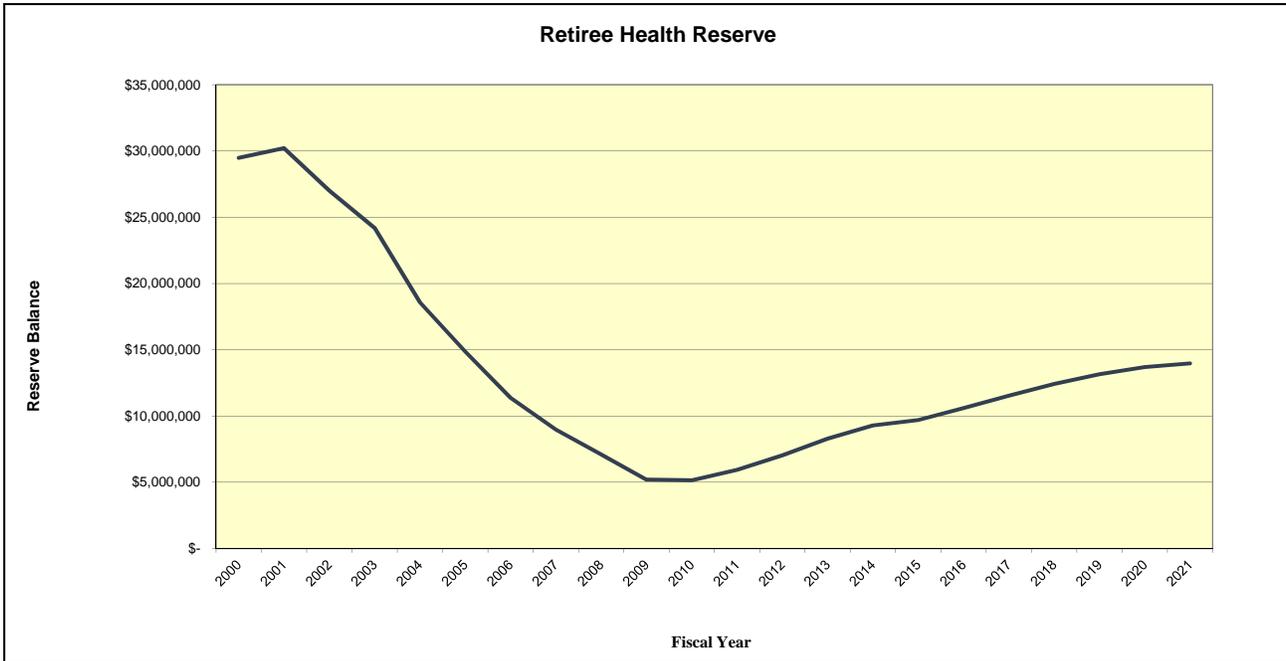
Risk management expense represents the cost of employee health benefits, insurance, self-insurance and workers' compensation programs and is allocated amongst the budgets of the BOE, Town and other funds. The Town's General Fund risk management expense increases \$944,559, or 6.3%, in fiscal year 2016. Town Health Program expense increases \$1,269,609, reflecting the General Fund portion of the \$650,000 increase in the contribution for retiree health and a significant increase in active employee health care costs. The contribution to the self-insured program is increased \$290,683 reflecting claims activity and a lower amortization of the program's accumulated surplus. Offsetting these increases are reductions in the contributions to the heart & hypertension program (\$191,316), insured program (\$221,385), and workers' compensation program (\$203,032) based upon claims activity and the amortization of accumulated surplus/deficit for each program.

### **Retiree Medical & Pension Benefits**

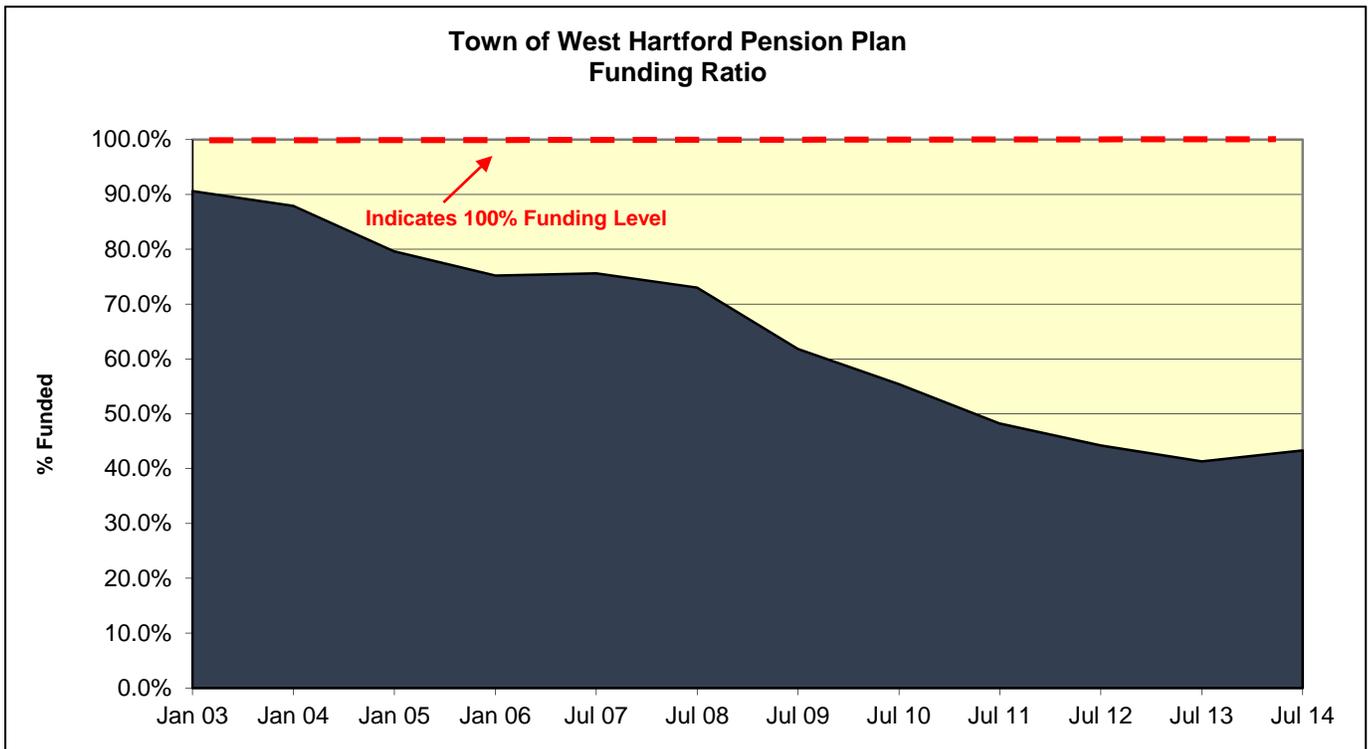
The Town provides medical benefits to retired employees. The total liability for retiree medical benefits, last measured on July 1, 2013, is \$118,864,906. These benefits are paid from a retiree health care reserve fund established in 1984. The annual General Fund budget makes a contribution to the reserve 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. As a result of these actions, 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 \$1,050,000 and will total \$10,180,000 in fiscal year 2016 split between the Town (\$7,272,000) and Board of Education (\$2,908,000).

After almost a decade of declining fund balance, during which time all retiree claims were paid out of the fund and the contribution was gradually increasing, the reserve fund balance began growing again in fiscal year 2011. 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 extended the retirement eligibility for new employees hired after 2003 which significantly lowered the liability associated with retiree health care. A trust fund was established for these employees and the annual required contribution to the trust for the cost of retirement health care benefits earned has been deposited in the fund each year. The Town has recently begun phasing in contributions to reach the annual required contribution for employees hired prior to 2003 as well.



The most recent actuarial valuation of the Pension Plan, conducted on July 1, 2014, revealed an improvement in the funded status of the plan from 41.3% to 43.3%. The July 1, 2014 actuarial valuation reflects the Pension Board’s decision to lower the expected rate of return for the Plan from 8.5% to 7.5% over a multi-year period. The assumed rate of return for the July 1, 2014 valuation is 7.54%, a reduction from the 7.95% used in the prior year. The actuarially determined contribution is the amount of funding the Town must contribute in fiscal year 2016 to achieve full funding of the Plan over twenty-three years. Based upon this valuation, a contribution of \$17,917,000 is required for fiscal year 2016, an increase of \$205,000.



**Public Schools**

The fiscal year 2016 education budget totals \$148,370,424, an increase of \$2,481,667 or 1.7%.

- Salaries, which represent the largest portion (66%) of the education budget, are increasing \$2.1 million or 2.2%. This increase reflects a modest growth related to a contractual inflationary increase.
- Employee benefit expenses represent the second largest portion of the budget (19%). Medical expenses are reduced \$1.5 million or 5.0% from fiscal year 2015 as a result of lower growth in claims through January 2015.
- Transportation, utilities and tuition (9% of the total budget) increase \$1.5 million or 13%. 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 Plan. The 2016-2027 Capital Improvement Program (CIP) invests \$191,765,000 in the West Hartford community over the next twelve years. These funds will be invested in Town and School buildings, transportation and infrastructure, parks and recreational projects and capital equipment. The capital program ensures the Town is prepared to fund the necessary maintenance of streets, schools and town buildings.

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 \$15,729,984 for fiscal year 2016. Of this amount, \$15,029,984 is appropriated in the General Fund and will be transferred to the Town's Debt Service Fund. The balance of \$700,000 is funded by bond premium received from previous Town bond issuances. The fiscal year 2016 budget includes no transfer to the CNRE Fund, as capital projects will be funded to the extent possible from current year surplus. Fiscal year 2016 debt service costs are partially offset by \$136,277 in school construction reimbursement grant revenue from the State of Connecticut.

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