TOWN MANAGER'S OFFICE

Wednesday, August 16, 2017

Secretary Benjamin Barnes
Office of Policy and Management
State of Connecticut
450 Capitol Avenue
Hartford, CT 06106

SENT VIA E-MAIL TO MICHAEL IZANDI, OPM AT: michael.izandi@ct.gov

Dear Secretary Barnes:

In response to your recent request, West Hartford's fund balance for FY 2017 and FY 2018 is as follows:

Year	Total Fund Balance	Unassigned Fund Balance (Per GASB 54)
FY 17 Estimated	$22,525,000	$21,791,000
FY 18 Projected (Based on Adopted Municipal Budget)	$22,525,000	$21,791,000

We appreciate that Governor Malloy has maintained a positive partnership with Connecticut's municipalities since his first day in office. We also understand that Connecticut's fiscal challenges are significant and that the state and the municipalities need to work together to address these challenges. The people of West Hartford cannot, however, face a massive reduction in state revenue or cost shift that would significantly spike property taxes and jeopardize the town's role as Hartford's largest neighbor and an economic anchor for the region.

West Hartford has consistently made tough choices to consolidate administrative functions, implement cost controls, collaborate with other cities and towns, carefully invest its funds, anticipate unfunded liabilities, tax as necessary, promote innovative development, and enhance our responsiveness to an increasingly diverse community. Because we have made these tough choices, West Hartford's economic growth and fiscal stability are major factors in the strength and future of the metropolitan region. As noted in the town's bond rating reports issued by Moody's Investor Service and S&P Global Ratings, the amount of our fund balance is not fortuitous or simply a function of some untapped wealth. Instead, it represents a track record of fiscal prudence and financial discipline. In order to remain competitive as one of only seven Aaa/AAA rated communities by both Moody's and S&P in Connecticut, the rating agencies have implied that if reserves are not increased, the Town may be susceptible to a downgrade. Both agencies have also formally noted that any erosion of the town's reserves would result in a downgrade as it would be perceived as decreased financial flexibility. Similarly, increased debt levels and any less aggressive approach to adequately funding the town's liabilities would result in the same outcome.

A downgrade would lead to increased debt issuance costs for our taxpayers. Consequently, at the present time the town's ability to utilize fund balance to support its operating budget is limited.

You have also requested any additional information that should guide your fiscal considerations. In our view, it is critical that the state's action be guided by the realty rather than the perception of West Hartford. In the 2016-17 school year, our student population was 41.9% minority with 21.4% of students whose home language was not English and 21.3% of students eligible for Free and Reduced Lunch. West Hartford students have higher needs than just 10 years ago, when the student population was 33.4% minority, 17.6% of students had a home language other than English, and 15.0% were eligible for Free and Reduced Lunch. During the same ten year period AP participation grew from 1,446 exams taken to 2,512 exams taken – a 74% increase - made all the more stunning when you take into account the growing needs of our student body.

We have achieved these results at a cost substantially below the state average. In 2015-16 (the latest year available) our Net Current Expenditure per pupil was $15,022 per pupil, over $1,000 per pupil less than the state-wide average of $16,249 per pupil. In total the school budget was $12.4 million less than what it would have been if we spent at the statewide average. Of the 169 towns in Connecticut, West Hartford ranked 128th in per pupil education spending.

West Hartford's Education Cost Sharing (ECS) grant has never approached full funding. While state aid to West Hartford through the ECS formula has increased in the recent years, the resulting grant for FY 2017 was 58% of the full ECS allotment. In previous years it had been as low as 28%. The proposed reductions in ECS payments to West Hartford in the Governor's executive order would adversely impact the diverse students that we serve and the taxpayers of West Hartford.

The property tax payers in West Hartford have provided the bulk of the support for the excellent education program offered by our school district. Property taxes have increased from 69.7% of the town's revenues in FY 2008 to 87.1% in FY 2017. Despite its reputation for being wealthy, West Hartford taxpayers, with varying demographic and economic backgrounds, cannot sustain such a dramatic increase in its tax burden. West Hartford is ranked 67th in the Connecticut for median household income and 8% of residents live below the poverty line. In addition, despite new development throughout town, grand list growth has been slow. The grand list grew just 0.58% in FY 2017, 0.31% in FY 2016, and 0.59% in FY 2015. As of the October 1, 2015 grand list, the largest share of the net taxable grand list is residential (75%) and 13.44% of the Town's net taxable grand list is exempt, further demonstrating the burden that residents carry.

While resources to fund expenditures have been limited, the town has worked consistently to manage its liabilities. As of the 7/1/2016 valuation, the town's pension plan is 43.3% funded, with an Unfunded Actuarial Liability of $234.9 million. To meet this obligation head on, the town has fully funded its Actuarial Determined Contribution, which has increased from $6.100 million in FY 2008 to $20.551 million in FY 2017; reviewed and reduced the discount rate consistent with actuarial recommendation; and productively negotiated with its bargaining units to achieve pension plan changes to strengthen the future viability of the plan. Plan changes include an increased retirement age for employees; the creation of a hybrid plan for all board of education

unions and new town employees; increased pension contributions for all town and board of education unions; the elimination of overtime from fire and police pension calculations; and an increased pension contribution from 6% to 8% for new firefighters. In each and every labor contract negotiation, the town endeavors to make changes to its pension plan to improve the outlook of this major liability. Similarly, the town has taken steps to address its OPEB liability by increasing the age of eligibility, increasing premium cost sharing for retiree health, and phasing in a trust fund. The town has also implemented a mandatory High Deductible Health Plan and Health Savings Account for teachers, nurses, administrators and firefighters. The high deductible plan is an option for all other town and school unions. The Town of West Hartford understands its liabilities and in order to make progress to fulfill these obligations, stability in the revenue base and continued support from the state are essential.

Each and every year as part of the budget process the town critically reviews all expenditures to substantiate whether they are required and conducts a thorough review of revenues to determine if new opportunities exist outside of property taxes. Since FY 1999 the town has reduced its workforce by nearly 10% and from FY 2007 to FY 2016 has successfully lowered its net long term debt per capita by 10% from $2,556 to $2,349. Over the years, the town has successfully consolidated services with the school district in areas such as Information Technology, Human Resources, Facilities Management, and Financial Services. The town has also partnered with nearby communities, sharing a regional health district with the Town of Bloomfield for over two decades, achieving costs savings and other efficiencies for both municipalities. Furthermore, the town has pursued savings from contracting out services such as trash removal, mailroom operations, on-call engineering, and various on-call building trades. In FY 2017, West Hartford began providing in-house paramedic services, which has provided enhanced services for residents and another revenue stream for the town. The town has pursued energy initiatives including the conversion of streetlights to LED and automated building controls that will provide a short term payback and long-term savings. In short, West Hartford has worked diligently to find ways to lessen the tax burden for its residents.

In addition to diligently reviewing internal operations, the town has engaged the Metropolitan District Commission (MDC), the non-profit municipal corporation providing water and sanitary sewer services to West Hartford and seven other area municipalities, in detailed discussions regarding the MDC annual budget and resultant tax increases. Even with this proactive approach the ad valorem sewer tax imposed on West Hartford has increased significantly year-after-year while the town has no recourse or ability to reduce this liability. Over the past five years alone, the town's payment has increased 26% from $7,623,800 in FY 2014 to $9,574,900 for FY 2018. This growing sewer tax is not allocated based on use, but instead based upon property tax collections; thereby shifting undue costs to member municipalities with higher property tax revenue. In fact, the MDC is one of only a few organizations nationwide billing municipalities for sewer services, rather than users directly based on usage. As the model exists now, West Hartford residents must pay an unfair share of sewer costs in the region and the Town must find a way to budget this ever increasing ad valorem tax.

Despite all of these efforts to manage and control costs, the town has needed to increase its mill rate to fund current services and to meet its obligations. The FY 2018 adopted mill rate is 41.04 mills, representing an increase of 1.53 mills or 3.9% over the prior year.

While we understand the difficult position the state is in, please know that any redistribution of our already underfunded Education Cost Sharing grant would negatively impact West Hartford residents, whether it be added taxes that residents cannot withstand, the elimination of important services, or additional debt obligations that would increase the financial burden for future generations; none of which would be prudent. West Hartford will continue its efforts to be a well-managed, financially sound contributor to the state, region, and capital city, but we need the state's continued support in order to do so. We are available to answer any additional questions you may have as you navigate this complicated situation.

Sincerely,

Shari Cantor
Mayor

Matthew W. Hart
Town Manager

cc: State Senator Beth Bye
State Representative Andrew Fleischmann
State Representative Derek Slapp
State Representative Joe Verrengia
Town Council
Thomas Moore, Superintendent of Schools
Peter Privitera, Director of Financial Services