

Town of West Hartford 2008-2013 Budget Forecast

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July 2, 2008

2008-2013 Budget Forecast

- The Government Financial Officers Association (GFOA) recommends that governments at all levels forecast major revenues and expenditures.
- The forecast should extend at least three to five years beyond the budget period and should be regularly monitored and periodically updated.
- The Town and Capital Improvement budgets provide detailed forward-looking and/or historic financial information. The BOE budget provides historic data.
- Utilizing the detailed information included in the proposed “roll forward” budgets presented last month, a 2008-2013 budget forecast was developed.
- Assumptions were taken from budget documents with page numbers cited. At risk assumptions are marked with “*”.

2008-2013 Budget Forecast

- Assuming the town is able to reduce annual increases in health claim costs from 12.4% to a projected 6%*, health care costs for town employees and retirees will increase 49%. [F-19]
- Town contributions to the Retiree Health Reserve Fund will increase 124% from \$3.6M to \$8.1M in 2013 (on the way to \$12.9M in 2021). [F-21]
- Other fringe benefits, including pensions*, SS and risk management, will increase 47% from \$14M to \$21M. [F-22]
- Of particular note is BOE Act.#5191, “Unused Sick Leave at Retirement” which has grown at a compound annual rate of 38% per year from \$300k to \$1.1M since 2005. [C-1]
- *Overall Fringe Benefit costs will increase 56% from \$34M to \$53M and will exceed Operating Expenses in 2012.*

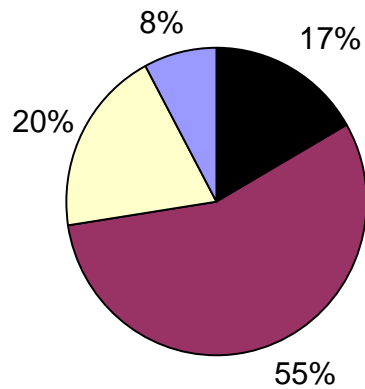
2008-2013 Budget Forecast

- Town and BOE wages are expected to increase 28% from \$115M to \$147M. [F-14, SBES-1]
- Town and BOE operating expenses are expected to increase 24% from \$41M to \$51M. [S-21-25, SBES-1]
- Town Services budget will increase 31% from \$69M to \$90M.
- The BOE cost to the General Fund will increase 33% from \$118M to \$157M.
- Capital Financing Costs will increase 37% from \$15M to \$21M.
- *Total Town Budget will increase 33% from \$202M to \$268M.*

2008-2013 Budget Forecast

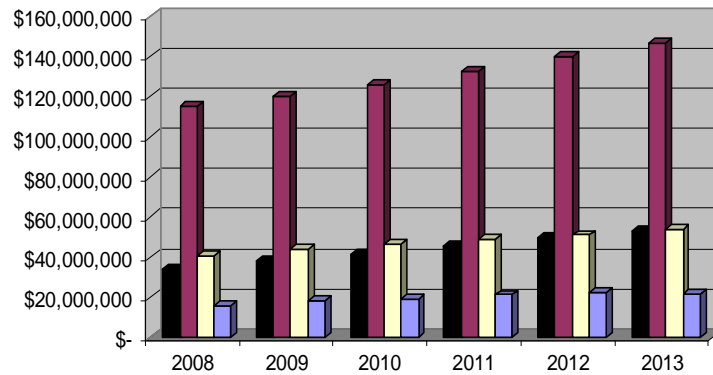
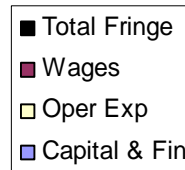
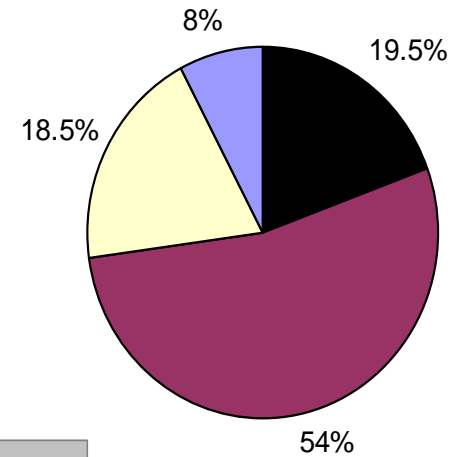
2008

\$202M



2013

\$268M



2008-2013 Budget Forecast

- Non-property tax revenues are expected to remain stable but will decrease as a percentage of the budget from 17% to 13%. [F-5,6]
- *Therefore, revenues from property taxes will need to increase 35% from \$172M to \$232M.*
- Assuming continued 1.1% real growth of the Grand List*, *the mill rate will remain at \$37.76 ± \$0.88 throughout the 5 yr. revaluation phase-in.* [F-4,7,8]
- The “*Average Residential Taxpayer*” will see his property taxes increase 42% from today’s level.

2008-2013 Budget Forecast

Tax Calculation

“Average Residential” Assessment Increase is 77%

Original MV - \$200,000

New MV - \$354,000

| <u>Year</u> | <u>Assessed Value</u> | <u>Mill Rate</u> | <u>Property Tax</u> |
|-------------|-----------------------|------------------|---------------------|
| 2003 | \$140,000 | \$35.41 | \$4,957 |
| 2004 | \$140,000 | \$39.70 | \$5,558 |
| 2005 | \$140,000 | \$42.12 | \$5,897 |
| 2006 | \$140,000 | \$44.07 | \$6,170 |
| 2007 | \$140,000 | \$46.19 | \$6,467 |
| <hr/> | | | |
| 2008 | \$175,000 | \$38.63 | \$6,760 |
| 2009 | \$193,200 | \$37.09 | \$7,166 |
| 2010 | \$211,400 | \$36.92 | \$7,805 |
| 2011 | \$229,600 | \$36.89 | \$8,470 |
| 2012 | \$247,800 | \$36.89 | \$9,141 |
| 2013 | \$247,800 | \$38.64 | \$9,575 |

{ +36% (2003-2007)
 { +93% (2008-2013)
 { +77% (2008-2013)
 { +6.0% (2008-2009)
 { +42% (2010-2013)

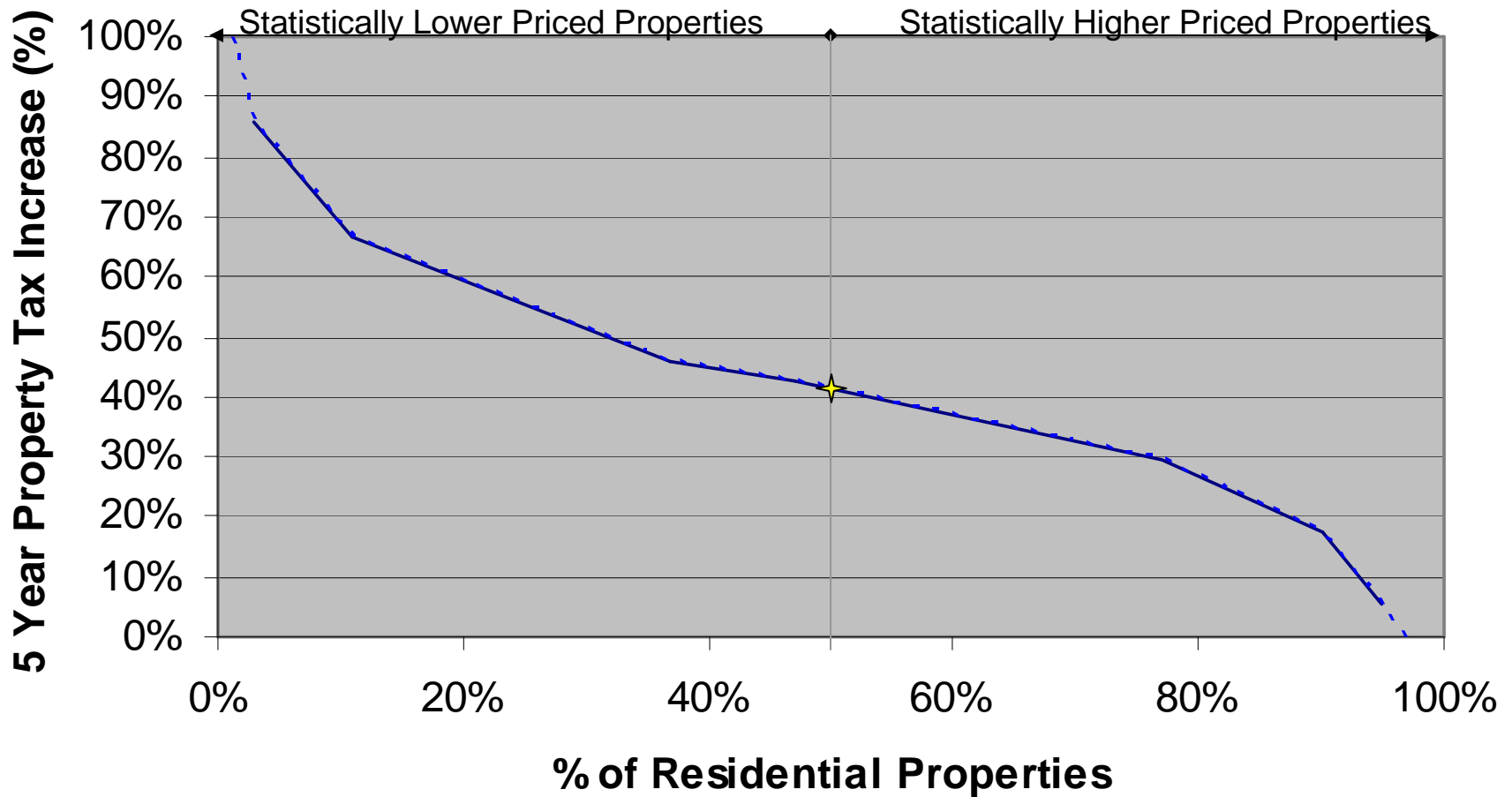
2008-2013 Budget Forecast

| <u>% Tax Increase</u> | <u>% of Residential Property</u> | <u>Total Value Increase</u> | | <u>5 Year Tax Increase</u> | |
|-----------------------|----------------------------------|-----------------------------|-------|----------------------------|------|
| >20% | 3% | | >133% | | >86% |
| 15%-20% | 8% | 108% | 132% | 66% | 86% |
| 10%-15% | 26% | 82% | 108% | 46% | 66% |
| 9%-10% | 10% | 78% | 81% | 42% | 45% |
| 6%-9% | 30% | 62% | 77% | 30% | 42% |
| 3%-6% | 13% | 47% | 61% | 18% | 29% |
| 0%-3% | 5% | 32% | 46% | 6% | 17% |
| <0% | 5% | <32% | | <6% | |

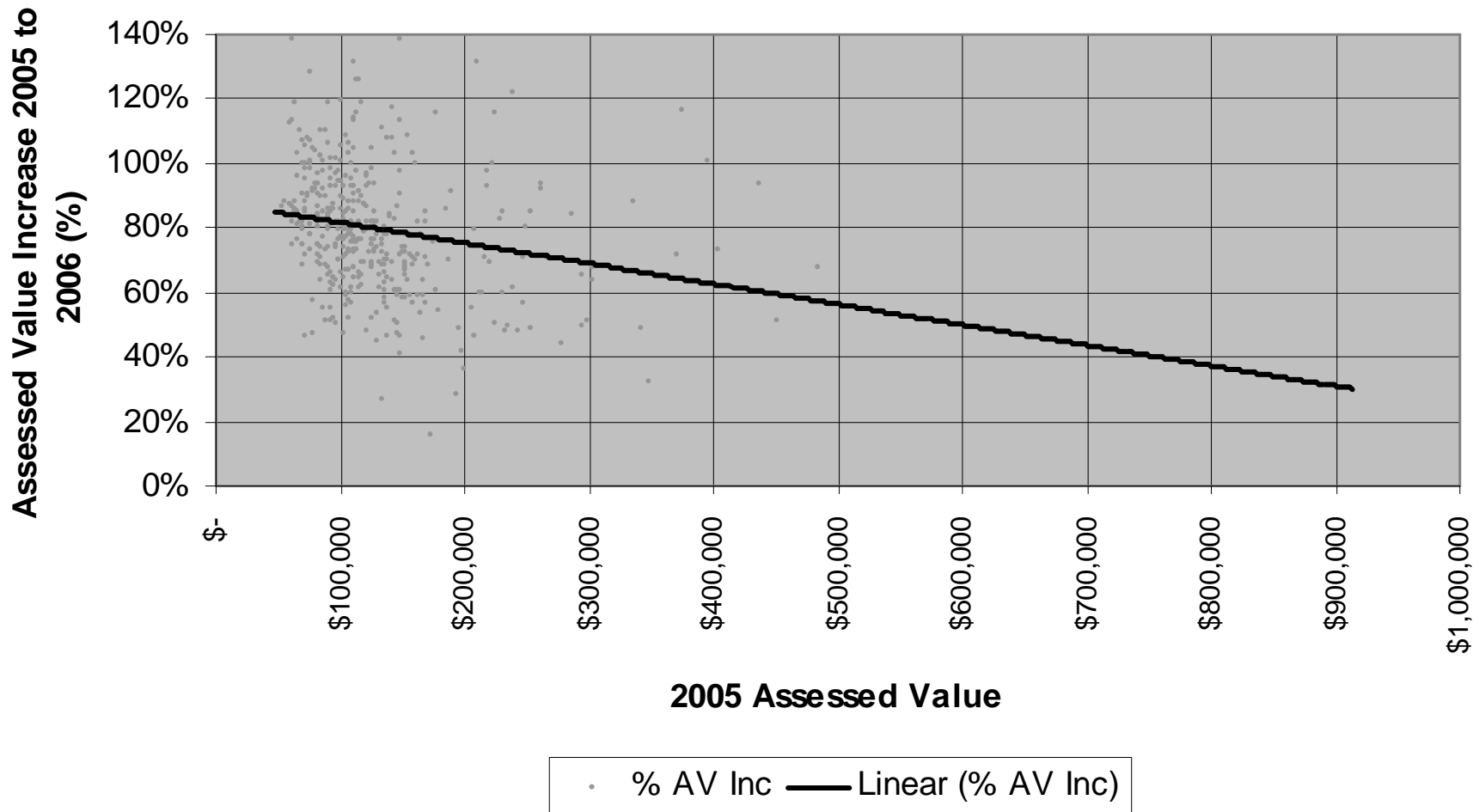
47% of the residential properties will experience property tax increases of between 42% and >86% over the next 5 years

Statistically, the highest AV increases occurred on the lowest value properties meaning the largest % increases in property tax will fall on those least able to absorb them.

2008-2013 Budget Forecast



Assessed Value Increase vs 2005 Assessed Value (415 single-family residences sold 7/1/06-12/31/06)



Among these is “Distressed Taxpayer”, a resident who purchased his home in August 2006.

2008-2013 Budget Forecast

Tax Calculation

“Distressed Taxpayer” Assessment Increase is 141%

Original MV - \$88,214

New MV - \$213,000

| <u>Year</u> | <u>Assessed Value</u> | <u>Mill Rate</u> | <u>Property Tax</u> |
|-------------|-----------------------|------------------|---------------------|
| 2003 | \$61,750 | \$35.41 | \$2,187 |
| 2004 | \$61,750 | \$39.70 | \$2,451 |
| 2005 | \$61,750 | \$42.12 | \$2,601 |
| 2006 | \$61,750 | \$44.07 | \$2,721 |
| 2007 | \$61,750 | \$46.19 | \$2,852 |
| <hr/> | | | |
| 2008 | \$77,187 | \$38.63 | \$2,982 |
| 2009 | \$95,165 | \$37.09 | \$3,530 |
| 2010 | \$113,144 | \$36.92 | \$4,177 |
| 2011 | \$131,122 | \$36.89 | \$4,837 |
| 2012 | \$149,100 | \$36.89 | \$5,500 |
| 2013 | \$149,100 | \$38.64 | \$5,761 |

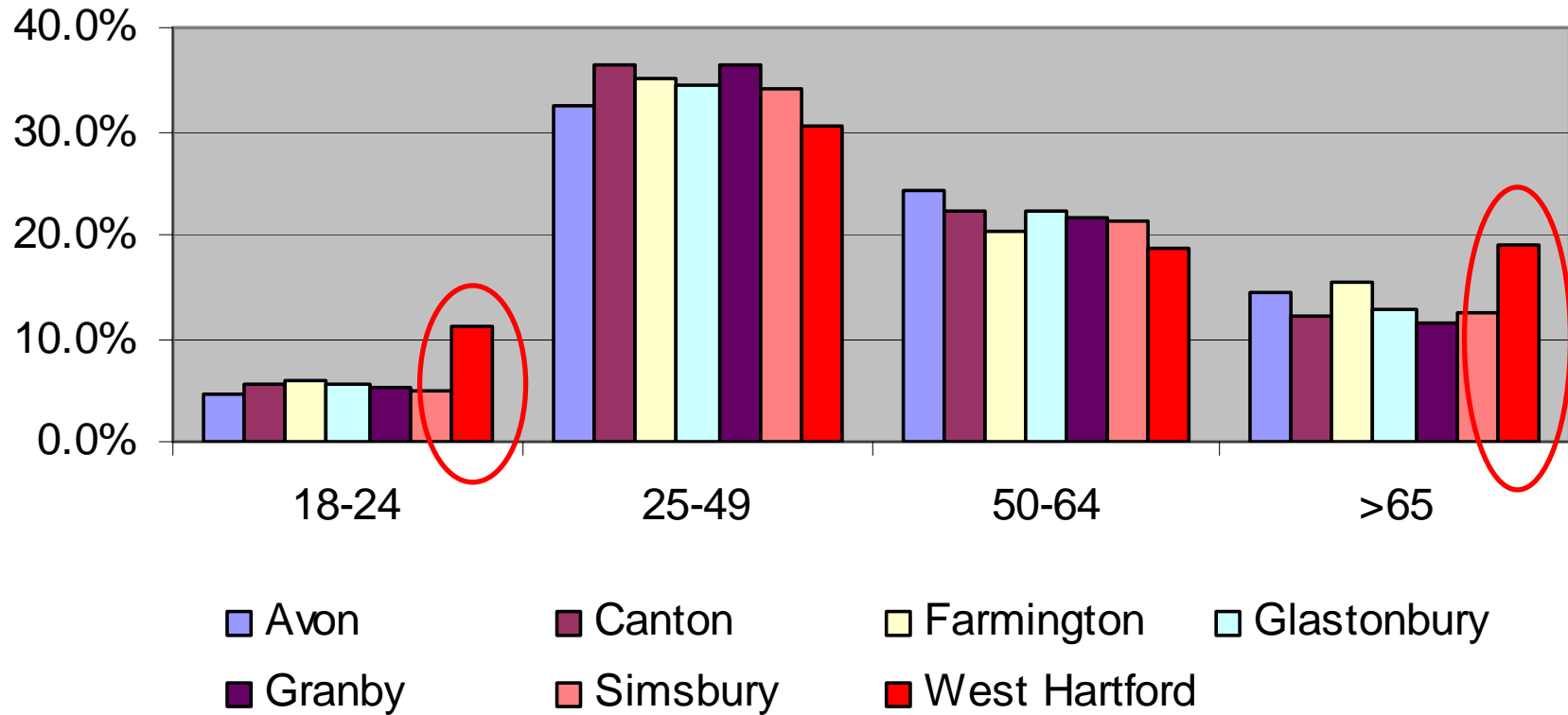
{ +36% (2003-2007)
 { +163% (2008-2013)
 { +141% (2008-2013)
 { +18.4% (2008-2009)
 { +93% (2008-2013)

2008-2013 Budget Forecast

- When taxes rise beyond the willingness or ability of certain segments to pay, current and prospective residents choose, or are forced, to look elsewhere.
- Those who choose to look elsewhere are disproportionately 45 to 64 years old, college graduates, relatively affluent and do not rely on local services. (19% WH Pop.) [Rutgers 2005]
- Those forced to look elsewhere tend to be at the low end of the income range and do not have school-age children including the young (18-24, 11% WH Pop.) and the elderly (>65, 19% WH Pop.).
- Many states, including CT, have put in place tax exclusions or “welcome stranger” laws to shield the elderly, veterans, etc. from property tax increases but these merely shift the municipal tax burden to others temporarily and do not address the underlying “cost of ownership” issue.
- Expressed as a percentage of the town population, West Hartford’s “Over 65” segment is 44% larger and the “18-24” segment is 109% larger than comparable segments of our peer group communities.
- The presence of these younger and older residents is what distinguishes West Hartford from surrounding bedroom communities.

2008-2013 Budget Forecast

Age Distribution



2008-2013 Budget Forecast

- According to information provided by the BOE, approximately 5,000 of the 25,450 households in West Hartford have children in the public school system.

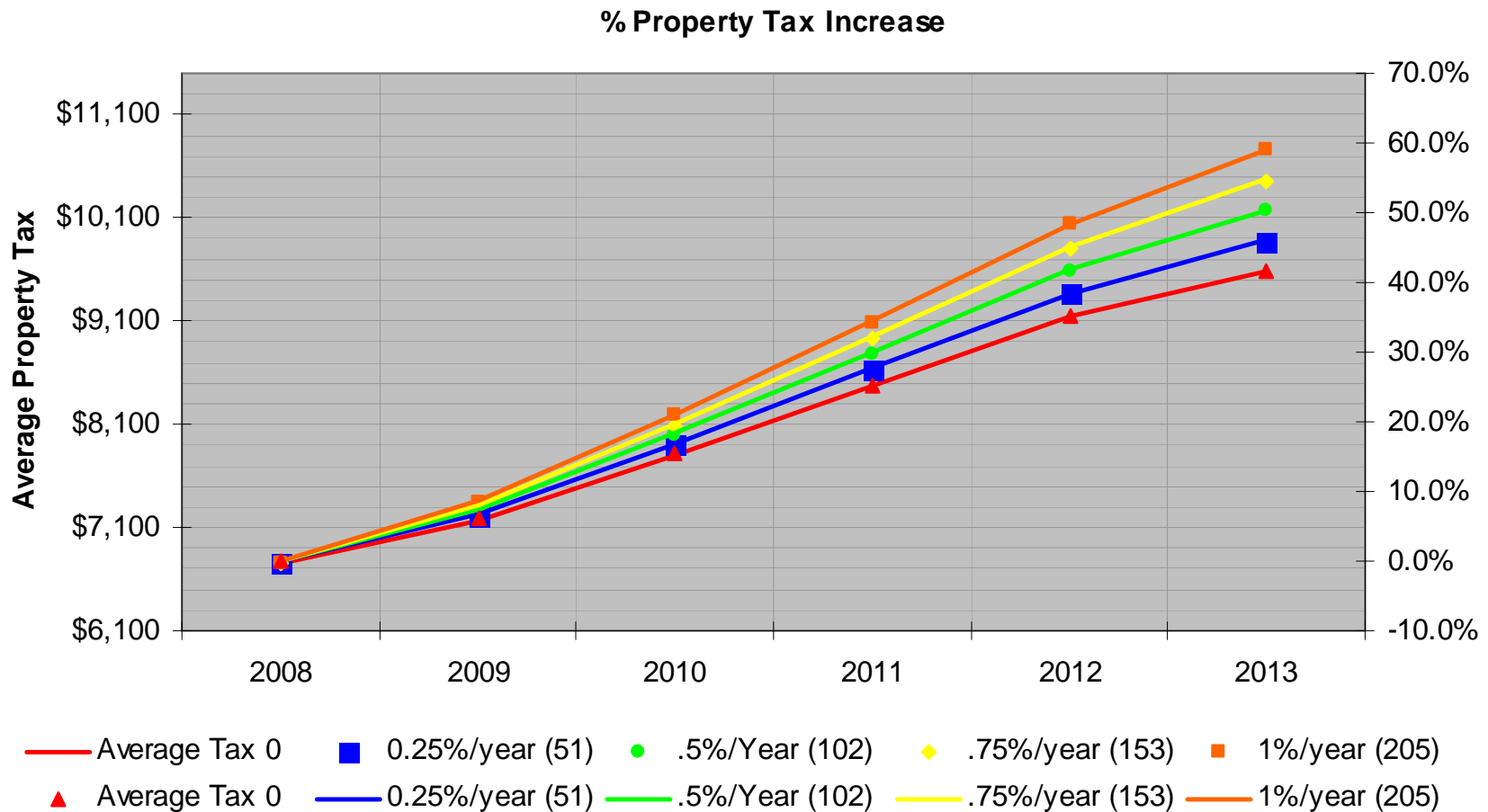
| | <u>2008</u> |
|---|---------------|
| a) Town & Capital Cost | \$ 83,969,375 |
| b) BOE Cost to General Fund | \$117,796,851 |
| c) Other Revenue Town & Cap | \$ 13,573,166 |
| d) Other Revenue BOE | \$ 16,141,510 |
| e) Total Property Tax [a+b-c-d] | \$172,051,550 |
| f) Average Tax Revenue [e÷25,450] | \$ 6,760 |
| g) Average Cost Town & Cap Household [(a-c)÷25,450] | \$ 2,766 |
| h) Average Cost BOE Household [g+((b-d)÷5000)] | \$ 23,097 |
| | |
| i) Avg Gain/Loss Non-School Household [f-g] | \$ 3,994 |
| j) Avg Gain/Loss School Household [f-h] | (\$ 16,337) |
| | |
| Equilibrium Ratio [(j÷i)] | 4.1 |

2008-2013 Budget Forecast

- It takes 4.1 households without children in the public school system generating \$3,994 in net gain per household (2008 \$) to offset the \$16,337 net loss generated by each household with children in the public schools.
- Historically, West Hartford residents have taken pride in their school system and have accepted the associated cost as justified. This represents a “social compact” which functions so long as residents see value in maintaining it.
- When members of a segment choose, or are forced, to leave, they tend to be replaced by members of the segment which does see a favorable cost/benefit outcome – taxpayers intending to benefit from the schools. Through this process, known as “Tiebout Sorting”, the ratio of tax-paying non-school households supporting each public school household gradually slips.
- As more non-school households are replaced with public school households, demand for services increases but the tax base does not, resulting in purely demand-driven increases in property taxes.

2008-2013 Budget Forecast

Impact of Tiebout Sorting on the 2008-2013 Budget



2008-2013 Budget Forecast

- For every twelve (12) households per year that switch from non-school to school, “average residential” property taxes will increase an additional 1%.

| Non-School Households Switched (% per year) | Non-School Households Switched (# per year) | 2008-2013 Avg Property Tax Increase (%) | Avg Property Tax 2013 (\$) |
|--|--|--|-------------------------------|
| 0.00% | 0 | 42% | \$9,575 |
| 0.25% | (51) | 46% | \$9,871 |
| 0.50% | (102) | 50% | \$10,166 |
| 0.75% | (153) | 55% | \$10,462 |
| 1.00% | (205) | 59% | \$10,758 |

- At the same time, lack of federal action on the Alternative Minimum Tax (AMT) will significantly increase income taxes for these same residents, exacerbating the stress on West Hartford taxpayers. [NY Times]

| <u>Income</u> | <u>% paying AMT in 2004</u> | <u>% paying AMT in 2010</u> |
|------------------|-----------------------------|-----------------------------|
| \$50k to \$75k | 0% | 16% |
| \$75k to \$100k | 1% | 52% |
| \$100k to \$200k | 6% | 80% |

2008-2013 Budget Forecast

Summary:

- Fringe benefits will grow at double the rate of all other budget items over the next five years (56% vs 28%) and will become the second largest element of the Town budget by 2012.
- Fringe benefit costs in the “roll forward” budget are driving property tax increases at an unsustainable rate of 252% of real wage growth (7.21% per year vs 2.86% per year).
- Having increased 36% in the last five years, the “Average Residential” West Hartford homeowner will see his property taxes increase an additional 42% over the next 5 years. AMT exacerbates this situation.
- Actual five-year increases will vary from under 6% to over 86% of today’s property tax values. Statistically, the most vulnerable segments of the population – the young and the elderly -will bear the greatest increases.
- Unless this is addressed promptly, demographic shifts (Tiebout Sorting) can result. West Hartford’s concentrations of young (18-24) and elderly (>65) may be forced out, forever changing the Town’s unique atmosphere.
- These departing non-school households will likely be replaced by school households, increasing demand for services and further raising taxes– a property tax “death spiral” that gradually moves up the income ladder.

2008-2013 Budget Forecast

The answer is to limit property tax increases, but the town government is constrained in the ways it can react:

| | <u>Implementation</u> | <u>Budget Impact</u> |
|---|-----------------------|----------------------|
| • Negotiated reduction of employee/ retiree benefits. | Slow | Long-term |
| • Hiring freeze, attrition reduction. | Immediate | Mid-term |
| • Freeze on new capital spending. | Immediate | Mid-term |
| • Additional headcount reductions. | Immediate | Short-term |

If property tax increases are to be held to sustainable levels, all of these must be implemented immediately and aggressively