

Town of West Hartford 2008-2013 Budget Forecast

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April 3, 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. 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 equal Operating Expenses in 2013.*

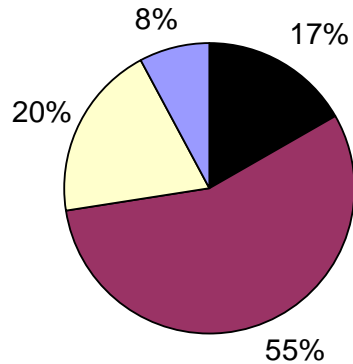
2008-2013 Budget Forecast

- 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 31% from \$41M to \$53M. [S-21-25, SBES-1]
- Town Services budget will increase 31% from \$69M to \$90M.
- The BOE cost to the General Fund will increase 35% from \$118M to \$160M.
- Capital Financing Costs will increase 37% from \$15M to \$21M.
- *Total Town Budget will increase 34% from \$202M to \$270M.*

2008-2013 Budget Forecast

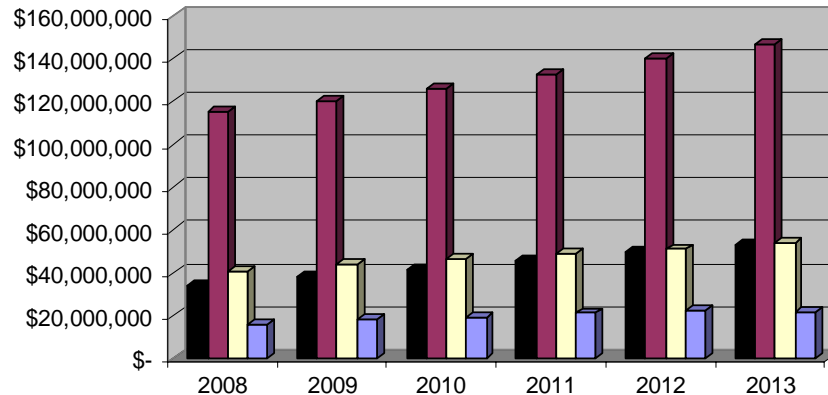
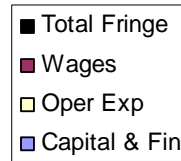
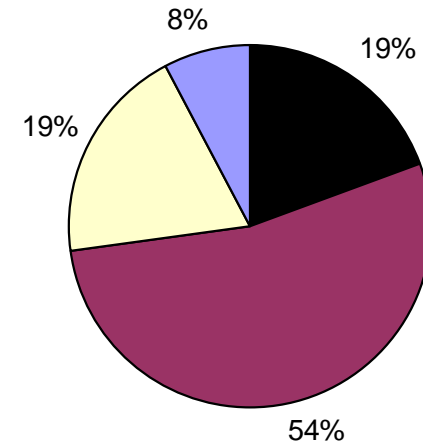
2008

\$202M



2013

\$270M



2008-2013 Budget Forecast

- Non-property tax revenues are expected to remain stable but will decrease as a percentage of the budget from 15% to 11%. [F-5,6]
- *Therefore, revenues from property taxes will need to increase 39% from \$172M to \$240M.*
- Assuming continued 1.1% real growth of the Grand List*, *the mill rate will remain at \$38.13 ± \$0.50 throughout the 5 yr. revaluation phase-in.* [F-4,7,8]
- The “Average Residential Taxpayer” will see his property taxes increase 44% 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 | \$38.11 | \$7,364 |
| 2010 | \$211,400 | \$37.81 | \$7,993 |
| 2011 | \$229,600 | \$37.70 | \$8,656 |
| 2012 | \$247,800 | \$37.63 | \$9,325 |
| 2013 | \$247,800 | \$39.36 | \$9,753 |

Brackets indicating percentage changes:

- 2003-2007 Assessed Value: +36%
- 2008-2013 Assessed Value: +77%
- 2008-2009 Mill Rate: +8.9%
- 2008-2013 Property Tax: +97%
- 2010-2013 Property Tax: +44%

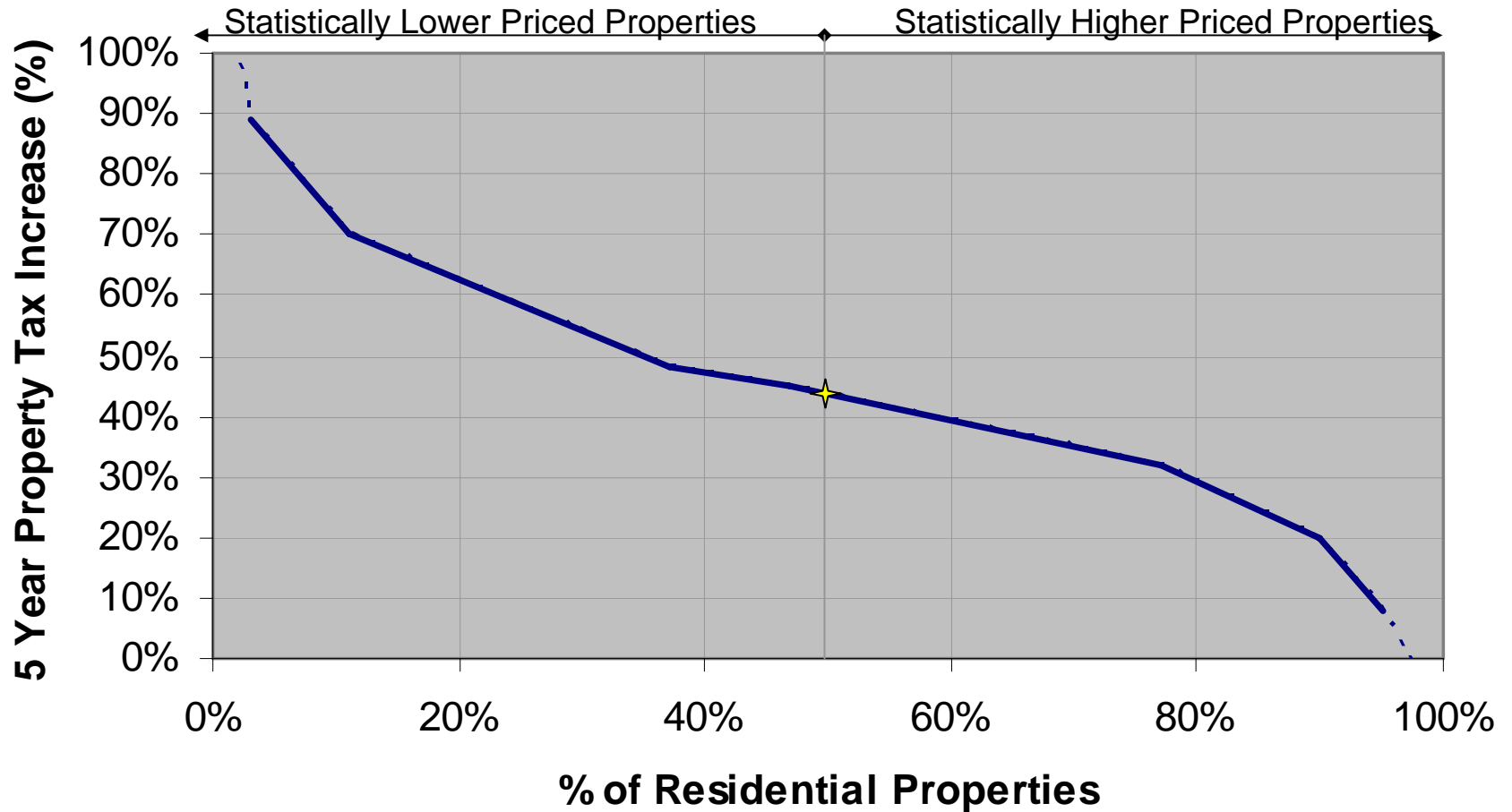
2008-2013 Budget Forecast

| <u>% Tax Increase</u> | <u>% of Residential Property</u> | <u>Total AV Increase</u> | | <u>5 Year Tax Increase</u> | |
|-----------------------|----------------------------------|--------------------------|-------|----------------------------|------|
| >20% | 3% | | >133% | | >89% |
| 15%-20% | 8% | 108% | 132% | 70% | 89% |
| 10%-15% | 26% | 82% | 108% | 48% | 70% |
| 9%-10% | 10% | 78% | 81% | 45% | 48% |
| 6%-9% | 30% | 62% | 77% | 32% | 44% |
| 3%-6% | 13% | 47% | 61% | 20% | 31% |
| 0%-3% | 5% | 32% | 46% | 8% | 19% |
| <0% | 5% | <32% | | <8% | |

47% of the residential properties will experience property tax increases of between 45% and >89% 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



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 | \$38.11 | \$3,627 |
| 2010 | \$113,144 | \$37.81 | \$4,278 |
| 2011 | \$131,122 | \$37.70 | \$4,943 |
| 2012 | \$149,100 | \$37.63 | \$5,611 |
| 2013 | \$149,100 | \$39.36 | \$5,869 |

Brackets indicating percentage changes:

- 2003-2007 Assessed Value: +36%
- 2008-2013 Assessed Value: +141%
- 2008-2009 Mill Rate: +21.6%
- 2008-2013 Property Tax: +168%
- 2010-2013 Property Tax: +97%

2008-2013 Budget Forecast

- Studies of similar situations have demonstrated demographic reductions among two groups of current and prospective town residents.
- 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%) and the elderly (19%).
 - 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.
- 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%) [Rutgers 2005]
- Demographic reductions among those forced and those choosing to look elsewhere reduce property values while they simultaneously increase demand for services.
- 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 29%) and will become the second largest element of the Town budget by 2013.
- Fringe benefit costs in the “roll forward” budget are driving property tax increases at an unsustainable rate of 266% of real wage growth (7.60% 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 44% over the next 5 years.
- Actual five-year increases will vary from under 8% to over 89% of today’s property tax values. Statistically, the most vulnerable segments of the population will bear the greatest increases.
- Federal inaction on AMT will make this bad situation worse.
- Unless this is addressed promptly, demographic shifts (which simultaneously reduce property values and increase demand for services) can result – a property tax “death spiral” that gradually moves up the income ladder.

2008-2013 Budget Forecast

The Town is very limited 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