OFFICE OF THE MAYOR

January 17, 2018

Via E-Mail and Regular Mail

Tom Spinella
Committee Administrator-Finance, Revenue and Bonding Committee
Legislative Office Building, Room 3700
Hartford, CT 06106
thomas.spinella@cga.ct.gov

Dear Chairs James Smith and Bob Patricelli and distinguished members of the Fiscal Stability and Economic Growth Commission,

As Mayor of West Hartford, I am extremely pleased and appreciative that your group is donating their precious time and expertise to help the State navigate and address the serious challenges that it faces.

On a personal note, both my husband and I are lifelong residents of the State of Connecticut. We are both products of our public schools, graduates of the University of Connecticut, and active business and civic leaders in our beloved State. Prior to my election as Mayor, I was employed as a CPA working for both PWC (when it was Coopers and Lybrand) and Cigna. I am currently a University of Connecticut Trustee. My husband grew a small intellectual property firm into one of the largest IP firms in the country with a global practice based in Hartford. He is the Board Chairman of Connecticut Innovations, the State's quasi-public venture capital fund. We have four sons, two of whom have made the Hartford area their home.

When looking at the greater Hartford area, West Hartford is a critical component in any discussion when considering economic development, available housing, and a nationally recognized education system. We often group the cities and the towns together. However, West Hartford is unique as we are the largest town in New England. We are diverse and vibrant and largely residential. I often meet people that have come to greater Hartford for employment. One of the compelling factors why these individuals accepted new positions in this area was because of the quality of life in West Hartford. West Hartford exceeds all of the primary criteria people are looking for when moving their families: a safe community with great schools, a community that is diverse, vibrant and welcoming with active and engaged citizens, pedestrian friendly streets and walkable thriving mixed use centers as well as an abundant housing market.

When addressing the fiscal stability and economic growth of the State of Connecticut, the goal of attracting new people to the greater Hartford area for employment is critical. I view West Hartford as offering many of the amenities that people consider before making a move. West Hartford is a shining star - an inner ring, semi urban suburb that remains one of the top places to live in the country.

We understand that Connecticut's fiscal challenges are significant and that we must all, both State and local communities, work together to address these challenges. However, there are limitations on how municipalities can operate and how revenue can be generated. We all recognize that property taxes are high and we have to pursue regional efforts to reduce costs where possible, but we still need to preserve the wonderful quality of life we now enjoy so that we remain the place where people want to make their home in Greater Hartford.

The relationship of West Hartford with the State of Connecticut is similar to the relationship the State of Connecticut has with the United States. Our residents pay a very high level of income tax to the State only to receive a relatively low level of Municipal Aid in return. According to data compiled by the State of Connecticut, West Hartford residents paid $171,817,664 in personal income tax in 2016. That was the fifth highest amount paid in the State behind Greenwich, Stamford, Fairfield and Westport, respectively. We are ranked the 25th highest in state income tax per capita; our median household income is 67th in the State and our Education Cost Sharing (ECS) wealth factor is 111th. While we have concentrated wealth in our town, we also have significant need. For the current fiscal year, the Town adopted a general fund budget that included approximately $27.6 million in Municipal Aid; the largest component being funding from our ECS Grant. Unfortunately, the final budget approved by the General Assembly was $23.2 million, or $4.4 million less than the amount the Town adopted. This budget of $23.2 million was further reduced by an additional $2.3 million as a result of the Governor's deficit mitigation plan, to $20.9 million. Overall, the Town's total Municipal Aid was reduced by $6.7 million. The residents of West Hartford cannot continue to face massive reductions in Municipal Aid that would significantly increase property taxes and jeopardize the Town's role as Hartford's largest neighbor and an economic anchor for the region.

Property tax revenue is the primary revenue stream that municipalities control. In most cases, the second largest revenue stream for cities and towns is Municipal Aid. When Municipal Aid is reduced there are two choices; reduce operating costs, which equates to a reduction of current service levels, or increase property taxes. As I previously stated, we can all agree that local property taxes in this state are high. West Hartford's mill rate is 32 mills for motor vehicles (as set by State legislation) and 41.04 mills for Real Estate, of which 87% is generated from residential property. Our average home value is $315,000, which equates an average property tax bill of $9,000 and, on average, an additional $1,000 tax bill for motor vehicles.

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 Standard & Poor's (S&P) Global Ratings, the amount of our undesignated 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, Moody's has 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. Not surprising, an additional comment made was the grave concern for the fiscal uncertainty of the State. Given the tumultuous recent State budget process, specifically the roller coaster ride of Municipal Aid, cities and towns are also held hostage by not knowing what to expect in the form of Municipal Aid for the coming years.

All of these factors, if not properly addressed, could lead to a credit downgrade which would result in increased debt issuance costs for our taxpayers. Unfortunately, the Town's ability to utilize fund balance to support its operating budget is, for all intents and purposes, unavailable as it would certainly result in a credit downgrade from both rating agencies.

It is critical when the Commission makes it recommendations that it be guided by the *reality* rather than the *perception* of West Hartford. In the fiscal 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 advanced placement (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 FY 2015-16 (the latest year available) our Net Current Expenditure per pupil was $15,022 per pupil which is over $1,000 per pupil less than the statewide average of $16,249. In total, the West Hartford 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 should not be penalized for our success and efficiency of our increasingly diverse student population by decreasing State support; we should be used as a model.

The property taxpayers 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 general fund revenues in Fiscal Year (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 Connecticut for median household income and 8% of residents live below the poverty line.

West Hartford is an established historic community with limited options for significant development, as is evident in our grand list growth. 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 pension 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 Employer Contribution (ADEC), which has increased from $6.100 million in FY 2008 to $20.551 million in FY 2017, and reviewed and reduced the discount rate consistent with actuarial recommendations.

In addition, the Town has 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 Other Post-Employment Benefits (OPEB) liability by increasing the age of eligibility, increasing premium cost sharing for retiree health, and phasing in the ADEC to 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 municipal 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 necessary and conducts a thorough review of existing non-tax revenues to determine if they can be increased or explore new opportunities for non-tax revenue generation.

Since FY 1999 the Town has reduced its workforce by nearly 10%, primarily through attrition or reorganization of department operations. Also, from FY 2007 to FY 2016, the Town has successfully lowered its net long term debt per capita from $2,556 to $2,349 or roughly 9%. Over the years, the Town has consolidated services with the school district in areas such as Information Technology, Human Resources, Facilities Management, and Financial Services. Furthermore, the Town has partnered with nearby communities such as sharing a regional health district with the Town of Bloomfield for over two decades, resulting in costs savings 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 started providing in-house paramedic services. These services provide enhanced emergency response services for residents, while adding a new revenue stream for the town. The town has also pursued energy initiatives including the conversion of streetlights to LED and automated building system controls. These types of energy savings investments are based on short term payback periods resulting in 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 quasi-governmental 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 quasi-governmental organizations nationwide whose municipal billing is based on an *ad valorem* tax, rather than direct billing to customers 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, it has been necessary for the Town to increase its mill rate simply to fund current services and to meet its obligations. The FY 2018 adopted mill rate of 41.04 mills reflects an increase of 1.53 mills or 3.9% over the prior year.

The newly adopted $10,000 limit of deductibility of state income tax and local property tax known as SALT (as opposed to being fully deductible from federal income tax since it was conceived in 1913) exacerbates the economic impact of our tax structure on our residents and economy. Municipalities with high mill rates and high real estate values, like West Hartford, are more acutely impacted.

As business leaders, you understand that planning and stability are essential for financial success. A strategic long-term plan is essential to our state and region. 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 questions you may have as you navigate this complicated task.

Sincerely,

Shari Cantor

Shari Cantor
Mayor, West Hartford

Cc: Town Council
Board of Education
Town Manager
Superintendent of Schools