<u>Fairfield Taxpayer Responds to Lori Charlton's Comments on Fairfield's FY2022 Budget</u>

On April 2, 2021, Lori Charlton, a member of Fairfield's Board of Finance, posted comments (copied in full at the end) about the Town's budget for FY2022. Her main points were as follows:

1. The budget approved by the BOF results in only a 1.1% increase in the mill rate, but a 5.6% increase in the tax levy.
2. The mill rate is increasing much less than the tax levy because the tax base (a.k.a., the Grand List or "GL") is up 4.5% after the recent revaluation.
3. The 4.5% increase in the GL is due <u>primarily</u> to increased property values (i.e., higher assessments) for existing homeowners and businesses, not to new construction and/or more taxpayers.
4. Because most of the increase in the GL is due to higher assessments, <u>existing</u> residential and commercial taxpayers, <u>on average</u>, face tax increases substantially greater than 1.1% next year when the new mill rate is applied to the increased value of their properties.
5. The affordability of the budget should be evaluated based on the increase in what taxpayers will actually have to pay rather than the modest increase in the mill rate.
6. Although it would be less fiscally conservative to do so, the increase in the tax levy could be reduced by deferring certain spending on reserves (e.g., the General Surplus and the Contingency Account) and certain funding for long-term liabilities like retiree healthcare costs.
7. Some of the reduced spending on reserves and long-term liability funding could be covered later by an expected surplus in the current FY2021 budget, and by an expected $25 million in Federal funds from the American Rescue Plan.
8. The Town can also cover any reduced spending now on reserves and funding with future cost-reduction efforts, greater efficiencies, future grants, and with the benefit of "accelerated real growth in our Grand List" as a result of "the effects of massive federal stimulus programs."

<u>Fairfield Taxpayer's Response</u>

1. Lori Charlton is a valuable and constructive member of the Board of Finance.
2. The opinions she has expressed are reasonable and valid, and should be part of the debate over (in Lori's own words), how we can best balance "priorities and risk with affordability for our residents."
3. As Lori herself is quick to acknowledge, these are very complex issues about which there are other reasonable and valid opinions.
4. How one frames a public policy issue has an important influence on one's conclusions; Lori has framed the budget issue through the primary lens of its impact on existing taxpayers in FY2022, and in doing so, she has made certain key assumptions.
5. The following comments provide some additional perspectives on how we should frame our discussion on this issue and on what assumptions we should make.

<u>Additional Perspective #1: The revaluation produced an unusually wide range of changes in property values around Town – So, any problems with unhappy property owners will be far less about the 5.6% increase in the tax levy than about how the overall tax burden is being redistributed.</u>

While it is true that <u>ON AVERAGE</u> all existing taxpayers face a tax increase significantly greater than the 1.1% increase in the mill rate, it is important to note that on average <u>existing residential</u> taxpayers will see a much smaller tax increase than <u>existing commercial</u> taxpayers primarily because the post-revaluation value of all residential property is up far less (~2.5%) than the value of all commercial

property (~23%). In addition, there was at least some new construction in the new GL (~0.75%). Accordingly, the average EXISTING residential property owner will actually see an increase of only **~2.85%** (1.011% x 1.025% x 0.9925 = 2.85%). **Thus, after a zero mill-rate increase in FY2021, over the two-year period, the average tax increase for residential taxpayers will be only 1.4% per year (2.85% / 2 = 1.425%), which is in line with the rate of inflation over the same period (CPI-W)**.

However, because over the past five years home values were up sharply in some neighborhoods and down sharply in others, the residential tax burden (i.e., the total amount paid by residential property owners – which represents ~80% of total property tax revenues) will be redistributed, and **some homeowners will see much higher tax increases than the average ~2.85% next year, and others will see lower increases or even substantial declines**. For example, at the extremes, including any new construction during the latest 12 months up to October 1, 2020, the total value of homes in the **Beach Area** was **up 20%**, and in **Sasco Hill** it was **down 17%**.

Meanwhile, EXISTING commercial taxpayers will take a much bigger hit. A 1.1% mill rate increase combined with a 23% revaluation increase minus the estimated 0.75% benefit from new construction means a **~23%** tax increase next year (1.23% x 1.011% x 0.9925% = 1.234%). **In other words, because of the large difference in the increases in the value of all residential and commercial properties (~2.5% and ~23%, respectively), the latter will feel a much greater combined impact from the revaluation and the 5.6% increase in the tax levy**. These numbers may change based on the outcome of assessment appeals before the mill rate is set for FY2022, but for now, that is how the numbers work.

It is important to note that at present there is no clear explanation for the large increase in the value of Fairfield's commercial and industrial properties after the revaluation, particularly given that the value of commercial property in Westport, which also just completed a revaluation, was DOWN ~7%.

Additional Perspective #2: Everything may not get better in the future – So deferring certain expenses now may not be such a good idea.

Unfortunately, it is quite possible (perhaps even, "more probable") that Fairfield's tax base will shrink rather than grow in the future, thus restricting its ability to maintain the quality and quantity of its public services. As a reminder, notwithstanding the surprising 23% increase in the value of its commercial property, Fairfield's Grand List at **$11.555 billion** is still **4% below** its **FY11 peak** of **$12.057** billion. If commercial and industrial property had been flat after the 2020 revaluation, the GL would be ~$260 million lower, and more than 6% below its FY11 peak.

First, we should all be concerned about what will happen to the value of Fairfield's commercial real estate property in the future. It is quite possible that "remote working" in the wake of Covid-19 and increasing inroads by eCommerce will lead to a glut of empty office buildings and retail stores that will adversely affect Fairfield's tax base. At the very least, it seems highly improbable that in coming years there will be much new commercial office and retail construction in Fairfield, Fairfield County, the NY Metro Area or Connecticut.

Second, although everyone is currently feeling exuberant over the strength in the local residential real estate market (thanks to an influx of Covid Immigrants from NYC), we should all be concerned that NYC will experience an extended period of decline due to an accelerated out-migration of resourceful residents from the NY Metro Area to states that offer much lower living costs and tax burdens, and for

many, a better quality of life. We should not forget that Connecticut still faces very serious structural problems that will not be solved with Federal rescue funds. Although its near-term financial condition has improved substantially (thanks in large part to a strong stock market), the State of Connecticut is still failing (e.g., more than 30 years with no job growth) precisely because its leaders felt that things would always get better and thus it was fine to borrow money to cover its operating expenses, to not maintain and invest in its infrastructure, and to defer funding for its long-term liabilities.

Accordingly, the assumption that it is fine for Fairfield to defer funding reserves and long-term liabilities because everything will be better in the future, deserves very careful thought.

Additional Perspective #3: It may not be a good idea to use any of the $25 million windfall to cover current expenses – Creating budget cliffs is simply not a good idea, particularly now.

Spending windfalls on current expenses is not, in general, considered to be sound fiscal policy. Windfalls should not be spent; they should be invested to enhance the Town's long-term competitive position.

Using windfalls to cover recurring expenses creates what are called "budget cliffs" that must be climbed when the windfalls disappear. Indeed, such cliffs are an important part of the FY2022 budget deliberations because one year ago, in the uncertain early days of the Covid-19 pandemic, all Town bodies knowingly and willingly agreed to defer or to bond certain expenses and to use certain reserves in the current fiscal year in order to hold the mill rate flat. Consequently, all other things being equal, spending would have had to rise ~$10.4 million or 3.3% in FY2022 just to return to normal funding. Within this context, currently proposed spending of **$333.4 million** for next year would be only **1.8%** higher than what last year's spending of **$327.6 million** would otherwise have been ($317.2m + $10.4m = $327.6m), which is less than the annual rate of inflation in public employee labor costs.

As noted earlier, Fairfield faces an uncertain future and significant challenges because it is located in a failing state in a high-cost region of the country with a climate that does not appeal to everyone. The Town's ability to continue to prosper is likely to become increasingly difficult as many remote workers realize that they need not maintain any proximity to NYC.

Subject to any Federal restrictions on our ability to do so, one such investment that would enhance Fairfield's ability to continue to attract and retain residents who are able and willing to pay for the quantity and quality of services the Town provides would be to put that $25 million windfall into our currently underfunded OPEB (Other Post Employment Benefits) fund, thereby reducing the Town's cost base in the future. Another investment to consider would be to use the windfall to create a free broadband system for all residents that would add to the Town's appeal as a place to live and do business. Yet another possibility is a new, state-of-the-art senior center.

Lori Charlton's Comments in Full.

A delayed budget post after a weary day of traveling and gratefully recovering from my second vaccine dose...

Wednesday evening, the BOF passed the 2021-2022 budget on a 6-3 vote along party lines, with Republicans voting in favor, and Democrats voting against. I was disappointed we did not come to a compromise but respect the differences of opinion among our Board members. The revised budget, which now heads to the RTM, results in an 5.6% tax increase (see image for breakdown).

I want to address continuing debates about the budget increase – specifically, the 5.6% budget increase versus the oft-discussed mill rate increase of 1.1%. Put simply, this budget produces a total pot of taxes that gets divvied up among taxpayers based on taxable property (the grand list), and that pot went up by 5.6%.

The mill rate (taxes owed per $1,000 of property value) is only increasing by 1.1%. That's lower than the budget overall because this year, Fairfield completed its quinquennial property revaluation, and the grand list went up by 4.5%. Now, if that increase was driven by new development (additional taxpayers) then the mill rate change would be meaningful - but that's not the case. The 4.5% increase is mostly due to increased property values for existing homeowners & businesses. This means that taxpayers will be assessed for increased property values on top of the increase in the mill rate. As a pocketbook issue, there's no difference – it's just a tax increase by another name. And that is why in evaluating this budget and its affordability, I've focused on the total tax increase – not just the mill rate.

But, but…we always talk about the mill rate increase during budget season!! True, we typically do -- for a reason. For every 4 out of 5 years, there is no revaluation, so the change in the grand list is real growth, and the mill rate DOES represent the impact on homeowners and businesses. Not the case this year. A different way of looking at it: with this same budget, if market forces were different and the revaluation had decreased assessments by the same proportion, the mill rate would have skyrocketed -- but the impact on taxpayers would not change by a penny -- because its the size of the budget that matters.

Finally – what deserves emphasis is that everyone will be impacted differently because of the revaluation. Some tax bills may go up 5.6%, some by far more, some will decline, some will stay flat. New assessments on commercial properties means that businesses will be especially hard hit overall. A larger levy means you will have a bigger increase...or a smaller decrease - but everyone is impacted by the size of the total pot.

Moving on…how did the BOF actions impact the budget? We made net reductions (totaling 0.7% of the levy) that had unanimous support:

- *A $1.2mm reduction in the contribution to surplus (aka "fund balance"). This relates to our "rainy day fund" which now stands at $35 million before any further contributions or any surplus realized from the 2020-2021 budget.*
- *Adjustments to pension and retiree healthcare estimates based on new information*
- *Cuts to DPW capital (trucks), Parks & Recreation (a proposed consulting study) and the contingency account*
- *Small positive adjustments to revenue estimates.*

I voted in favor of each of the cuts and revenue adjustments, but did not support the budget overall. Why?

- *The increase is still too high.*
- *In my opinion, the remaining budgeted surplus and cushions in budgeted contingencies should be cut.*
- *We budgeted for items I believe should be cut in anticipation of paying for them from $25mm in grants coming our way from the American Rescue Plan.*

I'm a CPA, and like most accountants, my mind is trained to be conservative in budget matters. Our budgeting practices ARE conservative, as they should be. We can always be more conservative, but that comes at a cost to taxpayers. Some of my colleagues favor more aggressive conservatism in building up reserves to address future risks, and believe we should deal with holes from last year's budget by taking the pain, so to speak, in one big dose versus over time. This increases taxes but creates a higher tax base to work from that puts less pressure on future years' budgets. That's one view, but I see it differently.

- *First/foremost, this is harder on taxpayers in a tough year on top of an already large increase.*
- *We are projecting a significant current year surplus, which will increase our already-healthy fund balance without more taxes*
- *We have 5 union contracts that are up for renegotiation by the end of fiscal 2021*
- *As we exit from the pandemic and feel the effects of massive federal stimulus programs, we should expect accelerated real growth in our grand list*
- *We have $25mm in federal funding coming to the Town which will lessen the pressure on other areas of our budget no matter how it is used, and free up bonding capacity to deal with large projects*
- *We just invested $4.6mm toward a reorganization of Town government that has a long way to go (if ever) before it pays for itself. More opportunities are in front of us – grant generation, technology efficiencies, and cost reduction. This will not be easy, and cost cutting is not always the goal (or the right answer) but we paid a big price for this reorganization and we must hold ourselves accountable.*

There were many passionate debates on this budget. In the end, that debate was not always about right vs wrong; some of it simply reflects strong beliefs about balancing priorities and risk with affordability for our residents. These views are mine.

If you've made it this far - thank you! I'm optimistic about Fairfield's future, and honored to be part of what's been a legacy of good fiscal stewardship from our Board. I'm grateful to all who participated and shared your ideas throughout this budget season. The process is not over, and I hope you will stay engaged.

Town of Fairfield Budget Summary

	(Millions $)	Increase	
Spending	333	5.10%	**(a)**
Plus: Other Adjustments	9	12.80%	**(b)**
Less Non-tax Revenue	(27)	1.50%	**(c)**
Total Tax Levy	315	5.60%	

(a) Education ($192mm, +4.1%), Other ($141mm,+6.5%)

(b) Reserves for uncollected taxes, assessment appeals, and senior tax relief

(c) State grants, licenses and permits, charges for services, interest income

https://www.facebook.com/Charlton2019/posts/467323724609800

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