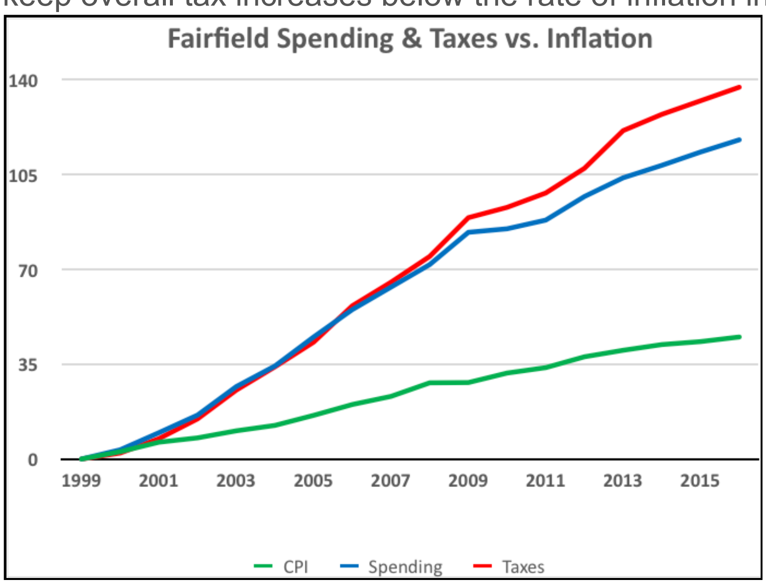
Fairfield Taxpayer's Perspective on 2016 Budget

As we noted when the Fiscal 2016 budget was first proposed by the First Selectman, Fairfield Taxpayer applauds the fact that the proposed tax increase is only 1.64%, which is close to the inflation rate for the first time in many years, perhaps only coincidentally because this is a municipal election year.

In any given year, there are many moving parts to a budget, and this year, as we explain below, is no exception. The people who create budgets are always quick to take credit for heroically controlling some costs, and at the same time to lament that certain other costs are beyond anyone's control. Truly well managed public and private organizations deliver strong results with great consistency in spite of all the positive and negative things that inevitably happen from one year to the next.

In Fairfield, increases in spending and taxes at 2.5x-3.0x the rate of inflation over the last 16 years (see graphic below) have created a serious affordability problem that is hurting property values and forcing seniors and many other property owners to leave. Therefore, until we have a strategic plan that addresses how we can achieve an optimal balance between services and taxes, Fairfield Taxpayer continues to believe that the Town should not allow its tax rate to increase more than the rate of inflation unless there are truly exceptional and unavoidable circumstances that require it.

Accordingly, although we could drill down into the budget numbers and argue that the proposed 1.64% tax increase for Fiscal 2016 could be even less because certain costs are increasing more than is necessary, we actually believe that it is appropriate to spend more than might be necessary in a year when it is possible to do so without increasing taxes more than inflation. This is should only be done when it will either make up for underspending for essential services (like capital equipment or paving) in past years, or when it will create the potential (e.g., a "rainy-day" fund) for the restraint required to keep overall tax increases below the rate of inflation in future years.



A Year to Focus on Longer-Term Objectives

Fairfield Taxpayer's focus for this year's BOF meeting is therefore on our longer-term objectives, which we believe should also be central to the choices voters make in the municipal elections in November. They include the following:

1. Restrict future spending and tax increases to levels no greater than the rate of inflation.
2. Renegotiate wages, benefits and work rules for public employees so that labor costs are no greater than they are for comparable work in the private sector.
3. Require school and town administrators to provide budget breakdowns by service and by student or user, so that the people and their elected representatives can make well informed decisions about which services they both want and can afford.
4. Begin every budget cycle with broad agreement on how much we can afford to spend (as virtually all of us do in our own households), and end every cycle with a clear explanation from every town body of why the budget it has approved is affordable for the taxpayers.
5. Create a long-term strategic plan for the town that, among other things, addresses the need for more non-residential commercial development in order to ease the burden on residential property owners, and includes a rolling-five year plan for spending and taxes.
6. Demand strong leadership from our State Representatives to reduce unfunded state mandates that increase our local property taxes, like Binding Arbitration, Minimum Budget Requirements and Prevailing Wages.
7. Reform the Town Charter to require that any increase in taxes greater than the rate of inflation must be approved in a town-wide referendum.

Some Observations on the Proposed Budget

Several favorable factors have combined to allow a relatively modest tax increase, beginning with a 0.5% increase in the Grand List, which basically means that the Town's spending could have increased next year by that amount with no increase in the tax rate. A significant portion of the increase in the Grand List is attributable to the completion of many new homes in the beach area after all the damage caused by Superstorm Sandy more than two years ago.

As proposed, total *spending* (as opposed to the tax rate) in the Fiscal 2016 budget at $291 million will actually be up 2.1%, which is well above the 1.6% inflation rate, driven in part by a proposed 3.3% increase in the BOE budget to $161 million, which is 55% of total spending, and which is the largest increase in BOE spending in six years. In the six years since Fiscal 2009, BOE budget increases have averaged 1.8% (down from an average of 3.5% in the previous ten years). The acceleration in Fiscal 2016 comes at a time when enrollment, after peaking in Fiscal 2012, has leveled off and is expected decline slightly (~2%) over the next ten years. By the way, including the $24 million in school costs that is not included in the BOE budget (principally the debt service on school buildings), total spending on our schools at $185 million represents 63% of our total spending, so we can't control our overall tax increase without controlling education costs.

In contrast, spending on the Town side is projected to rise less than 1% (0.8% to be exact). However, excluding the benefits of a $2.6 million decline in retiree benefit costs (down 15.7%), and a $1.1 million** decline in debt service costs (down 4.2%), spending on Town services is projected to rise 5.4%, even more than the 3.3% increase for the BOE, and substantially more than what have been 1.9% increases on average over the last six years. The decline in debt service is attributable primarily to the Town's ability to refinance outstanding debt at lower interest rates, and the decline in retiree benefit costs is attributable primarily to strong investment performance in recent years for the pension funds, which are now once again very close to being fully funded (the Police & Fire Plan is 97.2% funded and the Town Plan is 101.0% funded).

Everyone should understand that these pension funding levels and annual costs are significantly influenced by various actuarial assumptions, one of the most important among which is the assumed future rate of return on the pension fund assets. At 7.5%, Fairfield's assumed rate of return is in line with other public pension plans, but although it is down from 8.0% a few years ago, it is still much higher than the 4.5%-5.0% rates assumed by similar pension plans in the private sector, which are tied to the rate of return on AA-rated corporate bonds. If the assumed rate of return for Fairfield's pension funds were reduced to 6.0%, the annual cost of fully funding these plans would increase by almost $11 million (from $7.4 million to $18.2 million), which represents 3.8% of the current year's budget of $285 million.

Meanwhile, everyone should also understand that in addition to its pension obligations, the Town also has a substantial ($131 million) unfunded liability for what is called "OPEB" ("Other Post-Employment Benefits"), which principally includes healthcare coverage for Town and some BOE retirees. Fairfield is at least one of the roughly one-third of all Connecticut towns that is funding its OPEB liability rather than operating on a "pay-as-you-go" basis, which means that we are amortizing our unfunded liability over a 30-year period. Our OPEB fund is currently deemed by the actuaries to be about 14% funded (once again assuming a 7.5% future rate of return on the fund's assets).

<u>The big increases in the proposed **BOE budget** are for staff salaries and benefits</u> (which together represent 79% of the total BOE budget), which are blamed for 93% of the total $5.1 million increase. The $4.8 million increase in personnel costs represents a 3.9% increase from projected actual costs for the current year, even though teacher costs, which represent ~73% of total personnel costs, should only rise 1.7% based on

** Due to a typographical error, an earlier version of this commentary said that debt service would be down $2.2 million, but the related percentage changes were correct.

the information that was provided to the RTM last year to gain its approval of a new three-year contract. <u>The implied 10% increase in non-teacher personnel costs has not been explained, as far as we know</u>. This provides a perfect segue to what we think is the Town's and the State's biggest problem.

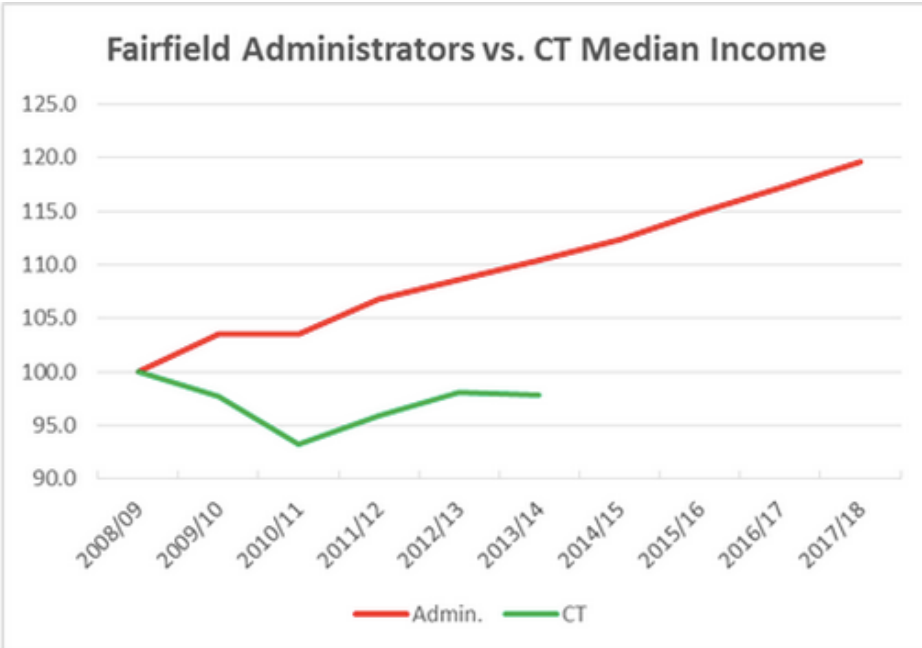
The Elephant in the Room

Fairfield's spending and taxes have not increased at 2.5x-3.0x the rate of inflation over the past 16 years because we added substantially more and/or better public services, but because the cost of public labor escalated sharply due to increasingly generous wages, benefits and work rules, as strong, well-organized public-employee unions (aided by legislation they promulgated like binding arbitration and constitutional pension protections) dominated at the bargaining table against weak, short-sighted government negotiators allegedly representing the taxpayers on the other side. Nationwide, according to the Bureau of Labor Statistics, public sector employees today earn 44% more than private sector employees.

That neither the Town nor the State has been able to even acknowledge the problem of excessive public employee compensation, let alone address it, is ultimately attributable to two factors: first, the widespread **complacency** created over many years of post-war prosperity, when it just didn't seem to matter what public employees were paid because everyone's material well-being (along with their home values) just kept getting better and better; and second, widespread **short-termism** on the part of both politicians and the voters, none of whom is forced to accept responsibility for the long-term consequences of their actions and are happy instead to move elsewhere if circumstances change for the worse in their neighborhood, town, region or state (including public employees who retire to Florida on their Connecticut pensions).

<u>One could not ask for a better example of Fairfield's inability to control its labor costs than the recent contract renewal for its School Administrators</u>. On average they are already making over $150,000 per year including benefits (some of them well over $200,000, which, by the way, compares to average teacher compensation of ~$94,000). Thanks to a new contract, they will get annual increases in salary and healthcare benefits of more than 3% over the next three years that will put them 20% above where they were in 2008 ***while the incomes of the taxpayers who must pay for those increases are still, on average, below where they were in 2008.***

Fairfield Taxpayer will have more to say on this subject in coming months leading up to the municipal elections in November.


Fairfield Administrators vs. CT Median Income
125.0
120.0
115.0
110.0
105.0
100.0
95.0
90.0
2008/09
2009/10
2010/11
2011/12
2012/13
2013/14
2014/15
2015/16
2016/17
2017/18
Admin.
CT