



## WHAT GOES UP MUST COME DOWN . . . EXCEPT FAIRFIELD TAXES

The State's fiscal crisis is beginning to have a major impact on Fairfield. State municipal aid is being cut, and the Governor also wants towns to pay one-third of the State's huge overdue bill for teacher pensions. The only options for towns like Fairfield will be to **raise taxes** or **cut spending**, but the State won't finalize its budget until after we must finalize our own budget and set a new mill rate. First Selectman Tetreau has proposed a **4.5%** increase in our mill rate that combined with a net increase in non-tax revenues would cover a **5.2%** increase in spending, including the full potential \$9.2 million cost of teacher pensions. He says we can cut or refund taxes later if that big tax increase is not necessary.

### Fairfield Taxpayer believes:

- **Taxes should never be increased to cover potential costs;**
- **We should budget carefully and sustainably (i.e., no major cuts that will have to be reversed the following year) and we should raise our tax rate only 1.5%, in line with the rate of inflation;**
- **If necessary, we should use our \$28 million Rainy Day fund to cover any cost of teacher pensions – that's what the fund is there for;**
- **When we know exactly how much additional cost, if any, we must bear for teacher pensions, we can figure out how much of that cost should come from spending cuts, how much should come from tax increases, and how best to replenish our Rainy Day fund.**

This crisis is not a passing storm. In coming years, CT towns will be under increasing financial pressure as more resourceful companies and people leave, and as economic growth, tax revenues, commercial development and home values remain weak. Very difficult choices lie ahead about how much we can afford to spend on public services and how that money should be spent. *This is why the Town's new Strategic Planning initiative is so important.*

### Are You Ready for a 10% Tax Increase?

If the Governor's proposed budget is enacted, Fairfield will have to raise taxes and/or cut spending by over **\$26 million**, which represents almost 10% of our current **\$276 million** tax levy. This includes **\$5.7 million** for cuts in State aid; **\$9.2 million** for teacher pensions; the requested **\$5.1 million** (3.1%) increase in BOE spending (despite declining enrollment); a normalized **\$2.8 million** (3.0%) increase in municipal spending; and a **\$3.6 million** (9.4%) increase in fixed costs (debt service and Town retiree benefits). Clearly, this is not going to be easy, particularly since state aid will be cut further and fixed costs will continue to rise in FY19 and beyond. For example, the teacher pension charge is currently based on an 8.0% rate of return assumption that is likely to be reduced.

| FAIRFIELD BUDGET PRESSURES    |                 |                 |                 |
|-------------------------------|-----------------|-----------------|-----------------|
|                               | FY17            | FY18            | Change          |
|                               | (\$ mil.)       | (\$ mil.)       | (\$ mil.)       |
| <b>State Aid:</b>             |                 |                 |                 |
| Education Cost Sharing        | \$3.59          | \$0             | -\$3.59         |
| Special Education             | 3.36            | 2.14            | -1.22           |
| DSS Residential SPED Costs    | 1.00            | 0.00            | -1.00           |
| Payment in Lieu of Taxes      | 2.00            | 1.54            | -0.46           |
| Public School Building Grants | 0.10            | 0.09            | -0.01           |
| All Other State Grants        | 1.08            | 1.67            | 0.59            |
| <b>Subtotal</b>               | <b>\$11.13</b>  | <b>\$5.44</b>   | <b>-\$5.69</b>  |
| <b>Teacher Pension Costs:</b> |                 |                 |                 |
|                               | <b>0</b>        | <b>-\$9.19</b>  | <b>-\$9.19</b>  |
| <b>Board of Education:</b>    |                 |                 |                 |
|                               | <b>\$163.66</b> | <b>\$168.76</b> | <b>\$5.10</b>   |
| <b>Municipal Services:</b>    |                 |                 |                 |
|                               | <b>\$91.85</b>  | <b>\$94.61</b>  | <b>\$2.76</b>   |
| <b>Fixed Costs:</b>           |                 |                 |                 |
| Town Retiree Benefits         | \$14.36         | \$16.43         | \$2.07          |
| Debt Service                  | 23.64           | 25.16           | 1.52            |
| <b>Subtotal</b>               | <b>\$38.00</b>  | <b>\$41.59</b>  | <b>\$3.59</b>   |
| <b>Total Budget Pressures</b> | <b>~</b>        | <b>~</b>        | <b>-\$26.33</b> |

Further complicating matters is the likelihood that the State budget will not be finalized until after the Town must finalize its own budget and set its new property tax rate in early May. Thus, we must figure out how to cover the full \$9.2 million teacher pension cost even though it may not happen or might turn out to be less. To do this we have only three options: increase revenues, cut spending or use reserves.

### **The First Selectman's Budget Proposal**

First Selectman Tetreau has proposed a budget that would raise revenues and spending by **\$15.3 million** (5.2%). **Higher revenues** would come from a **4.5%** tax increase (**\$13.7 million**) and a net increase in non-tax revenues (**\$1.6 million**), despite the expected cut in State aid. **Higher spending** would come from a full allowance for the potential **\$9.2 million** teacher pension charge and a **\$6.1 million** increase in operating costs. The **\$6.1 million** operating cost increase includes a **\$3.1 million** (1.9%) increase in BOE spending, a **\$2.1 million** (14.4%) increase in Town Retiree Benefits, a **\$1.5 million** (6.4%) increase in Debt Service, and a **\$0.6 million decrease** in everything else (despite, paradoxically, a substantial and unnecessary **\$0.88 million** (160%) increase in the annual contribution to our "Rainy Day Fund"), all of this facilitated by unsustainable **\$2.3 million** cuts in Paving and Capital Replacement.

The First Selectman's proposal is based on the principle that we should budget based on the "**best available information**," by which in this case he means that we should assume the worst regarding the potential **\$9.2 million** charge for Teacher Pensions. **The major problem with this approach is that it does not address the critical question of HOW MUCH WE WOULD CUT OTHER SPENDING if we were sure that we had to absorb the full proposed Teacher Pension cost.** For example, with education spending at 65% of total spending, it is not likely, under these circumstances and with enrollment declining, that we would allow the BOE budget to rise by \$3.1 million next year.

### **Fairfield Taxpayer's Budget Proposal**

Fairfield Taxpayer believes it would be wrong to raise our property tax rate by 4.5%.

- Anyone who thinks that taxes would not continue to increase from the higher base after a 4.5% increase is not, in our opinion, a good student of history, politics or human nature.
- Raising the tax rate by 4.5% would send the wrong message to the Governor and his supporters that Fairfield taxpayers can afford to pay more, and are willing to do so.
- Fairfield already has an affordability problem with a mill rate that is significantly higher than towns like Westport, Darien and Greenwich where home buyers, particularly higher-end home buyers, can find homes they like in communities with great schools and public services and can pay substantially lower taxes, all of which is eroding Fairfield's tax base.
- **Budget proposals should never start with how much more everyone would like to spend – they should always start with how much we can afford to spend.** Any consideration of how much we can afford to spend must acknowledge that seniors living on fixed incomes have had virtually no increase (0% in 2016 and 0.3% in 2017) in their social security benefits.

FT also believes that it makes no sense to impose disruptive changes in education and Town spending that might not be necessary if, for example, the teacher pension cost proposal is not enacted.

Finally, FT believes that **it makes no sense to impose an unaffordable tax increase to mask or postpone the inevitable need for substantial spending cuts.**

Accordingly, FT recommends that the Town:

- Raise the mill rate by only **1.5%**, which on a 0.7% higher tax base (and adopting the First Selectman's assumptions regarding tax credits and reserves) would generate **\$5.4 million** in higher taxes.
- Use all the same tax sale and other non-tax revenue assumptions proposed by the First Selectman, to generate another **\$1.6 million** and thus **\$7.0 million** in total additional revenues.
- Allow the same combined **\$6.7 million** increase in spending for BOE, Town Retiree Benefits, and Debt Service that the First Selectman proposes.
- Cut the proposed contribution to the Rainy Day fund by **\$0.88 million** (leaving it flat with the current year), and cut Paving and Capital Replacement spending by only **\$0.5 million** instead of \$2.3 million (leaving Paving down only 10% and Capital Replacement down only 8%).
- Adopt the First Selectman's proposal to increase "All Other Town Spending" by **\$0.8 million**.
- Be prepared to charge our **\$28 million** Rainy Day fund the full amount of any teacher pension cost imposed, ***with the understanding that the same amount would be restored to the fund in FY19.***
- Ask the BOE and all Town departments to provide **preliminary FY19 budgets that assume we must absorb \$9.5 million in annual Teacher Pension costs and, if necessary, rebuild our Rainy Day fund, which will allow the public and their elected officials to make rational and informed decisions.**

| ALTERNATIVE BUDGETS FOR FY 18 |                   |                                 |                                    |                                 |                                    |                    |                       |
|-------------------------------|-------------------|---------------------------------|------------------------------------|---------------------------------|------------------------------------|--------------------|-----------------------|
|                               | FY17<br>(\$ mil.) | FY18                            |                                    | YTY \$ Change                   |                                    | YTY % Change       |                       |
|                               |                   | First<br>Selectman<br>(\$ mil.) | Fairfield<br>Taxpayer<br>(\$ mil.) | First<br>Selectman<br>(\$ mil.) | Fairfield<br>Taxpayer<br>(\$ mil.) | First<br>Selectman | Fairfield<br>Taxpayer |
| <b>Revenues:</b>              |                   |                                 |                                    |                                 |                                    |                    |                       |
| Taxes                         | \$275.65          | \$289.01                        | \$280.75                           | \$13.36                         | \$5.10                             | 4.8%               | 1.9%                  |
| Less Senior Tax Relief, etc.  | -5.14             | -4.55                           | -4.55                              | 0.59                            | 0.59                               | -11.5%             | -11.5%                |
| Less Collection Reserve       | -3.70             | -3.95                           | -3.95                              | -0.25                           | -0.25                              | 6.8%               | 6.8%                  |
| Net Taxes Collected           | <b>\$266.81</b>   | <b>\$280.51</b>                 | <b>\$272.25</b>                    | <b>\$13.70</b>                  | <b>\$5.44</b>                      |                    |                       |
| State Grants for Education    | 3.59              | 0.00                            | 0.00                               | -3.59                           | -3.59                              | -100.0%            | -100.0%               |
| Other State Grants            | 5.61              | 5.23                            | 5.23                               | -0.38                           | -0.38                              | -6.8%              | -6.8%                 |
| Other Non-Tax Revenues        | 14.03             | 17.02                           | 17.02                              | 2.99                            | 2.99                               | 21.3%              | 21.3%                 |
| Prior-Yr. Taxes, etc.         | 3.47              | 6.01                            | 6.01                               | 2.54                            | 2.54                               | 73.2%              | 73.2%                 |
| Total Revenues                | <b>\$293.51</b>   | <b>\$308.77</b>                 | <b>\$300.51</b>                    | <b>\$15.26</b>                  | <b>\$7.00</b>                      | 5.2%               | 2.4%                  |
| Mill Rate                     | 25.45             | 26.59                           | 25.83                              | ~                               | ~                                  | 4.5%               | 1.5%                  |
| <b>Spending:</b>              |                   |                                 |                                    |                                 |                                    |                    |                       |
| BOE                           | \$163.66          | \$166.72                        | \$166.73                           | \$3.06                          | \$3.07                             | 1.9%               | 1.9%                  |
| Teacher Pensions              | 0                 | 9.19                            | 0                                  | 9.19                            | 0                                  | nm                 | nm                    |
| Total Education               | <b>\$163.66</b>   | <b>\$175.91</b>                 | <b>\$166.73</b>                    | <b>\$12.25</b>                  | <b>\$3.07</b>                      | 7.5%               | 1.9%                  |
| Debt Service                  | 23.64             | 25.16                           | 25.16                              | 1.52                            | 1.52                               | 6.4%               | 6.4%                  |
| Subtotal                      | <b>\$187.30</b>   | <b>\$201.07</b>                 | <b>\$191.89</b>                    | <b>\$13.77</b>                  | <b>\$4.59</b>                      | 7.4%               | 2.5%                  |
| Town Retiree Benefits         | 14.36             | 16.43                           | 16.43                              | 2.07                            | 2.07                               | 14.4%              | 14.4%                 |
| Rainy Day Fund                | 0.55              | 1.43                            | 0.55                               | 0.88                            | 0                                  | 160.0%             | 0.0%                  |
| Paving                        | 3.35              | 2.00                            | 3.00                               | -1.35                           | -0.35                              | -40.3%             | -10.4%                |
| Capital Replacement           | 1.90              | 0.95                            | 1.75                               | -0.95                           | -0.15                              | -50.0%             | -7.9%                 |
| All Other Town                | 86.05             | 86.89                           | 86.89                              | 0.84                            | 0.84                               | 1.0%               | 1.0%                  |
| Total Spending                | <b>\$293.51</b>   | <b>\$308.77</b>                 | <b>\$300.51</b>                    | <b>\$15.26</b>                  | <b>\$7.00</b>                      | 5.2%               | 2.4%                  |

March 5, 2017