

Town of West Hartford 2010 Budget Forum

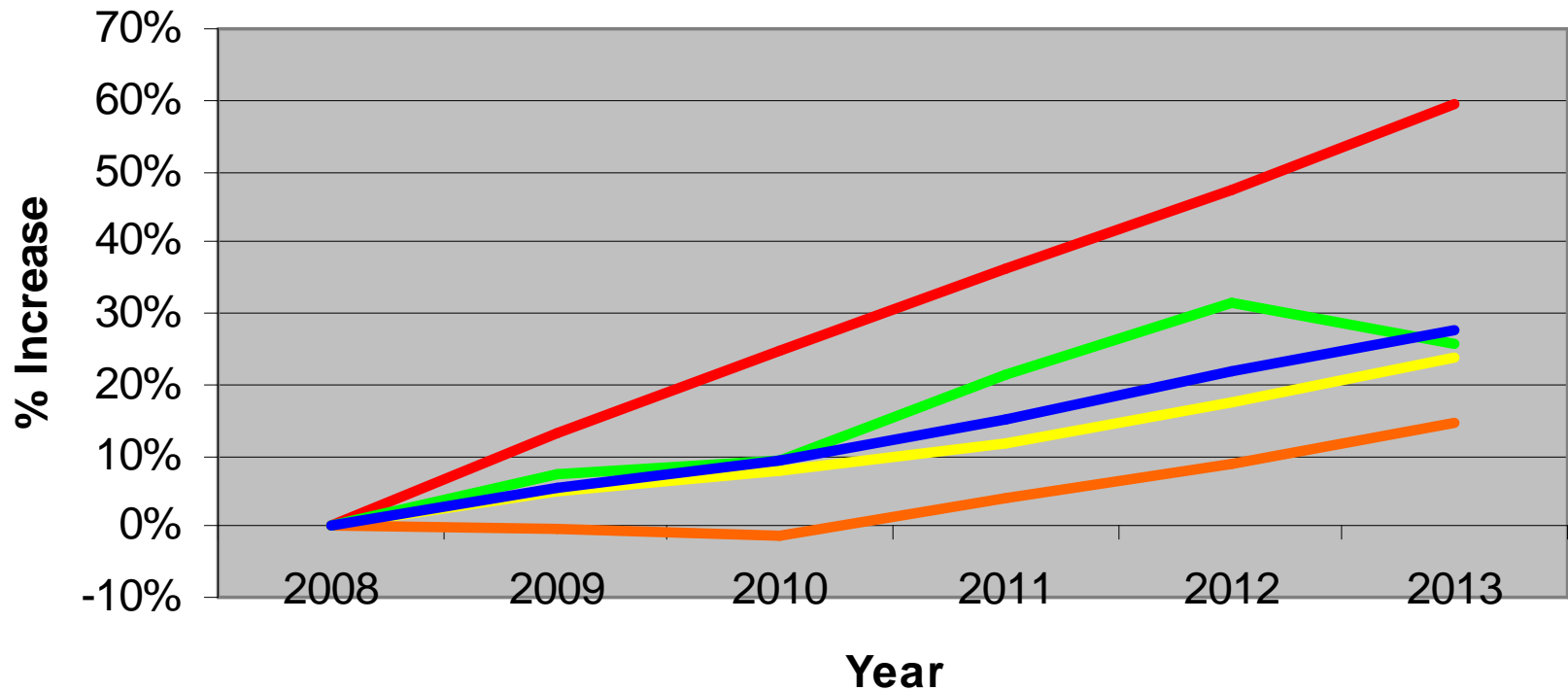
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- As the economic situation has deteriorated in recent months, the Town and BOE have implemented a number of cost-reduction initiatives. All new capital spending has been postponed or eliminated, a hiring freeze has been implemented and an historically low teachers wage increase has been negotiated for the coming two years.
- In addition, services have been scaled back, fees for many remaining services have increased, the prior year's surplus has been consumed and the sale of some Town assets has been proposed.
- On the positive side, the Obama administration has proposed direct aid to cities which will potentially result in a "one time" federal stimulus payment of roughly \$1M to \$1.5M to the Town.
- As a result of these initiatives, the Town's FY2010 working budget is forecast to be \$75.5 million, the BOE budget to be \$127.6 million and capital spending to be \$16.6 million. Therefore, overall spending will increase 3.2% to the "crisis" budget level of \$219.7 million – considerably less than the 5.6% increase of last year.

2008-2013 Budget



— Total Fringe — Wages — Oper Exp — Capital & Fin — Total

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- Assuming non-tax revenue holds at \$30.2 million, this “crisis” budget will result in an average residential property tax increase of 5.7%.
- If intergovernmental payments are reduced by 20%, as happened in past fiscal crises, average residential property taxes will rise 8.0%.
- Because of revaluation, half of Town residents will see property tax increases greater than this – some more than double these average values.
- The bottom line is this:

When all discretionary spending is eliminated, embedded costs are driving average property tax increases of 5-6% when times are good and 8-9% when non-tax revenues are reduced.

Even the most optimistic among us will agree that this is unsustainable.

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- Wages and benefits currently represent 74% of the combined Town and BOE budget. The average Town employee cost \$83,219 in wages and \$45,303 in fringe benefits for a total of \$128,522 in FY2009.
- Employee benefits are increasing at a CAGR of 9.75% and will grow from under 17% to over 20% of the overall budget by 2013 while wages (4.3%), operating expenses (2.7%) and capital spending (4.7%) will all shrink as a percentage of the total.
- Driving these benefit increases are programs which are no longer affordable in the private sector – generous vacation and vacation buyback provisions, reimbursement of unused sick days and, most importantly, post-retirement healthcare and defined benefit pensions allowing employees to retire well before Federal program age limits with lifetime benefits for themselves and their spouses.
- As several recent high-profile examples have shown, employees are able to “retire” with full benefits provided by WH and continue their careers in other communities.

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- During the term of the collective bargaining agreements covering most employees, it is not possible to implement changes in wages, benefits or other provisions unilaterally.
- However, the Town Council and the BOE can adopt resolutions clearly stating the Town's position for future negotiations:
 - To cap defined benefit pensions and substitute defined contribution plans,
 - To restrict vacation and vacation buyback provisions,
 - To cap reimbursement of unused sick days at current levels and eliminate future accruals, and
 - To place further limitations on post-retirement healthcare eligibility

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- By their very nature, collective bargaining agreements restrict the employer's ability to control cost during the term of the agreement by any means – except through control of headcount.
- An employer unwilling to adjust headcount in reaction to changes in the financial outlook of his enterprise relinquishes all control over personnel costs for the duration of his collective bargaining agreement, and....
- Greatly reduces the strength of his bargaining position in future contract negotiations.
- Therefore, it is of vital importance that the Town Council and BOE - as well as the future Town Manager and Superintendent of Schools - clearly state their intention to reduce headcount as necessary to achieve required cost reductions. Particularly, in the case the above-listed measures are not incorporated in future collective bargaining agreements.

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- In the interim, the Council and BOE should maintain the present hiring freeze, thoroughly investigate additional outsourcing of services and offer early-retirement incentives to selected eligible employees.
- The early-retirement incentive should be structured to encourage near-term retirement of senior employees and should be reduced as the terms of the current collective bargaining agreements conclude.
- Properly structured, such a program will encourage more highly compensated employees to retire, disproportionately reducing employee wage and benefit costs while facilitating the transition to the sustainable benefit packages described above.
- Near-term retiree benefit costs will increase, drawing down the pension and retiree health funds, but will be more than offset by future savings.
- The current hiring freeze can be relaxed once sustainable benefits packages are in place and new staffing levels are established.

Recommendations

1. Town Council and BOE must publicly adopt resolutions clearly stating their position in future negotiations:
 - To cap defined benefit pensions and substitute defined contribution plans,
 - To restrict vacation and vacation buyback provisions,
 - To cap reimbursement of unused sick days at current levels and eliminate future accruals, and
 - To place further restrictions on post-retirement healthcare.
2. Most importantly, the Town Council and BOE - as well as the future Town Manager and Superintendent of Schools - must clearly state their intention to reduce headcount as necessary to achieve required cost reductions.
3. Offer early-retirement incentives to eligible employees.
4. Thoroughly investigate additional outsourcing of services.
5. Maintain the hiring freeze until sustainable benefit plans are in place.