TOWN OF WINDSOR

First in Connecticut. First for its citizens.

March 24, 2017

Honorable Mayor, Town Council and Citizens of Windsor,

In accordance with the requirements of the town charter, please accept this proposed Fiscal Year (FY) 2017-2018 Financial Plan and Program of Services.

The preparation of the FY 2018 budget included facing several competing challenges that threaten the stability and quality of services to our community. These economic realities, several beyond our control, necessitate a strategy that includes thoughtful planning if we are to maintain the sense of community and viability of our town. The main challenges include a declining grand list, the potential for severe revenue reductions at the state level, a proposed shift of the teachers retirement liability expense to municipalities, and the state imposed cap on motor vehicle tax.

Following an increase in the grand list in FY 2017, the grand list for FY 2018 is decreasing by 1.29%. This decline is a result of the Amazon tax abatement agreement going into effect and a large decrease in personal property value of -$23 million or 4.9%.

The State of Connecticut continues to have difficulties balancing its budget due to relatively slow economic growth and structural problems such as large unfunded pension and health benefit liabilities. The governor's proposed budget calls for cities and towns to pay a portion of the state's teacher retirement plan liability, and if adopted by the legislature, would increase Windsor's expenditures by $3.2 million in FY 2018. On top of the potential state teacher retirement plan liability expense, the governor's proposed budget slashes state aid to most municipalities. In Windsor's case, we could see a $3.5 million cut in state aid dedicated to the General Fund for FY 2018 as compared to the town's FY 2017 adopted budget.

In addition, the statewide motor vehicle tax mill rate cap is expected to impact the FY 2018 budget. State law requires municipalities to cap the mill rate for motor vehicles at 32 mills. With Windsor's FY 2018 proposed mill rate exceeding 32 mills, it is projected the town could forego approximately $550,000 in motor vehicle tax revenue in FY 2018. To make up this lost revenue, the real estate and personal property tax will have to absorb the burden. When first adopted, a portion of the lost revenue was going to be returned to the towns by the state in the form of a reimbursement grant, but this is unlikely to occur given the state's fiscal challenges.

Absent significant alterations in the proposed state budget, there will need to be reductions to town services and capital investments, in addition to a larger tax increase than we have seen in recent years.

Outlined on the following pages is an overview of FY 2018 key expense drivers, revenues, potential state aid alterations based on the governor's budget proposal, the October 2016 Grand List and potential tax rate impacts.

Key expense drivers for FY 2018 as compared to the adopted FY 2017 budget are as follows:

	Increase	% Incr.	
MDC Ad Valorem Sewer Assessment	$339,930	9.9%	
Pension / Retirement	$300,830	10.5%	(includes defined benefit/contribution)
Salaries / Wages	$272,790	1.8%	
Health Insurance	$182,830	6.0%	
Debt Service	$203,040	3.0%	
Other Post-Employment Benefits (OPEB)	$100,000	22.2%	
State Teachers Retirement Plan Liability	$3,208,290	100.0%	(as proposed in Governor's budget)
Board of Education	$826,790	1.2%	

The expenses listed above are offset by a decrease in expenditures related to $1.3 million from the Community Investment Initiative funded in FY 2017. As you will recall, the Community Investment Initiative was designed to utilize in-part last year's large increase in grand list value to build resource capacity for FY 2018 due to an expected decline in the October 2016 Grand List.

Overall, with the proposed state teachers retirement plan liability expense included, the FY 2018 General Fund expenditures increase $4.26 million or 3.8% as compared to FY 2017. Without the state teachers retirement plan liability expense, the increase would be $1.06 million or 0.95%.

Below is a breakdown of the primary General Fund budget categories comprising the $4.26 million increase:

Budget Component	FY 2017 Adopted Budget	FY 2018 Proposed Budget	$ Change	% Change
Board of Education	67,471,330	68,298,120	826,790	1.23%
State Teachers Retirement Plan	0	3,208,290	3,208,290	100.00%
Town Operating Budget	29,759,530	30,625,480	865,950	2.91%
Sewer Service (MDC)	3,443,070	3,783,000	339,930	9.87%
Debt Service	6,768,060	6,971,100	203,040	3.00%
Great Pond Improvement District	91,000	94,380	3,380	3.71%
Other Post-Employment Benefits (OPEB)	450,000	550,000	100,000	22.22%
Community Investment Initiatives	1,335,000	0	(1,335,000)	-100.00%
Capital Projects & Open Space	1,545,000	1,595,000	50,000	3.24%
Total Expenditures	**$110,862,990**	**$115,125,370**	**$4,262,380**	**3.84%**

Town Operating Budget

The FY 2018 budget essentially maintains current service levels. There are no new proposed full-time positions within the general government, or town portion of the budget. The budget continues pay-as-you-go capital funding for fleet and equipment replacement as well as street repaving and sidewalk repairs and replacement.

FY 2018 Expenditures

The proposed overall General Fund budget consists of the following major categories:

Department	FY 2017 Adopted Budget	FY 2018 Proposed Budget	$ Change	% Change
Town Support for Education	4,825,360	8,356,440	3,531,080	73.18%
Community Development	93,860	115,950	22,090	23.54%
Public Works and Engineering	5,346,700	6,065,990	719,290	13.45%
Information Services	447,510	474,870	27,360	6.11%
Recreation & Leisure Services	1,450,120	1,489,110	38,990	2.69%
Safety Services	9,965,720	10,197,310	231,590	2.32%
Human Services	810,580	829,360	18,780	2.32%
Library Services	1,612,660	1,649,370	36,710	2.28%
Health	471,410	480,100	8,690	1.84%
Board of Education	67,471,330	68,298,120	826,790	1.23%
Administrative Services	2,224,840	2,250,020	25,180	1.13%
General Government	991,110	980,400	(10,710)	-1.08%
General Services	13,351,070	12,657,240	(693,830)	-5.20%
Development Services	1,800,720	1,281,090	(519,630)	-28.86%
Total Expenditures	**$110,862,990**	**$115,125,370**	**$4,262,380**	**3.84%**

Overall expenditures are proposed to increase by $4.26 million, of which $3.54 million or 83% is related to the state's proposed teachers retirement plan liability expense and the increase in the annual MDC ad valorem sewer assessment. The expenditure increase without the state teachers retirement liability expense and MDC impact would be 0.64%. The proposed retirement expense is reflected in the Town Support for Education category and the MDC ad valorem sewer assessment is reflected in the General Services category.

The notable increase in Public Works and Engineering and the decrease in Development Services is a result of reorganizing the departments as outlined in sections K and M of the budget document.

FY 2018 Revenues

As noted above, the complexity of the governor's proposal relative to state aid has made forecasting revenues even more of a challenge than normal. At this point we are forecasting a net decrease of $3.5 million in state aid when compared to the adopted FY 2017 budget. Nearly all of the state aid categories that are dedicated to the general fund are impacted this year per the governor's proposed budget. Below is a table that compares major municipal aid categories between our adopted FY 2017 budget and the proposed FY 2018 budget.

State Aid	Windsor's FY 2017 Adopted	Governor's FY 2018 Proposed	Difference
ECS Grant	11,447,660	5,961,964	(5,485,696)
Grants for Municipal Projects	1,321,000	-	(1,321,000)
Existing Excess Cost Grant	1,254,000	-	(1,254,000)
Transportation	253,070	-	(253,070)
Offset by:			
Special Education - New	-	4,744,683	4,744,683
Total	**$14,275,730**	**$10,706,647**	**($3,569,083)**

Grand List

Overall, the October 2016 Grand List decreased in value by -$37.7 million or -1.29% compared to the October 2015 Grand List. This decrease is the result of the Amazon fixed assessment agreement taking effect and a large decrease in personal property assessed value of -$23 million or -4.9%.

Tax Rate

As previously noted the motor vehicle mill rate will be capped at 32.00 mills.

When the estimated net taxable grand list is combined with the non-tax revenue and proposed expenditures, the mill rate for real estate and personal property increases to 35.04 from 31.52 which is an 11.17% increase. Over 75% of this increase is a direct result of the governor's proposed state budget and capping the motor vehicle tax rate.

If the proposed teachers retirement plan liability expense is removed and if state aid were to be level funded compared to FY 2017, the mill rate for real estate and personal property increases to 32.48 from 31.52 which is a 3.05% increase.

Concluding Remarks

While the impact of the state budget is a reality, the degree of the impact will remain uncertain as we work together in the coming weeks to review the town's FY 2018 proposed budget. It is likely that the State of Connecticut General Assembly will amend the governor's budget recommendations in an effort to mitigate impacts to cities and towns. Unfortunately, the town's budget process schedule does not allow us the luxury of waiting until the state budget is finalized to move forward with our financial plan.

With that in mind, I look forward to working with the town council to review the proposed budget and discuss how to potentially approach or manage the significant policy decisions necessary to accommodate the extreme changes included in the governor's proposed budget. Together, I am optimistic that a financial plan can be arrived at that largely maintains service levels and the sense of community we are all so proud of.

I would like to thank the town's leadership team, the town's budget review team, and especially our dedicated Finance Department for their work in preparing this proposed budget.

Respectfully Submitted,

Peter Souza, Town Manager