



Town of Glastonbury

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Richard J. Johnson
Town Manager

January 26, 2016

Dear Board of Finance Members:

In accordance with applicable Town Charter requirements, I am pleased to forward the fiscal year 2016-2017 Town Operating and Debt & Transfer budget proposal. The budget plan outlined herein looks to continue ongoing efforts to manage Town operations effectively and efficiently while providing outstanding quality, responsiveness and customer service through all Town operating departments and divisions.

The combined Town, Education, and Debt & Transfer budget appropriations are summarized as follows.

	FY 2016 ADOPTED	FY 2017 PROPOSED	INCREASE (DECREASE)	% CHANGE
Town	\$39,406,569	\$40,305,830	\$899,261	2.28%
Debt Service & Transfers	14,255,000	14,255,000	0	0.00%
Education	99,250,292	102,122,911	2,872,619	2.89%
TOTAL	\$152,911,861	\$156,683,741	\$3,771,880	2.47%

A summary of the factors influencing the FY 2016-2017 budget proposal are highlighted below and discussed over the following pages.

Expenditures

- Combined percentage increase of 2.47% compares to adopted budgets of 2.16%, 3.14% and 2.99%, respectively, for FY 2016, 2015 and 2014.
- Debt & Transfer appropriations remain unchanged at \$9.2 and \$5 million - \$14.2 million total.
- Town operations increase 2.28% and Education 2.89%.

Revenues

- Grand List growth estimated at 1.15%.
- General Fund Transfer-In proposed at \$575,000 as compared to \$650,000 in the current year.
- Intergovernmental Revenues incorporate mid-year reductions by Governor/Legislature.
- New operating revenues include:
 - Estimated \$1 million in motor vehicle revenue for new state-wide mill rate.
 - Municipal Revenue Sharing Account (MRSA) estimated at \$1.086 million to Glastonbury. Budget incorporates \$500,000 in MRSA as hedge against possible state budget action.

Mill Rate

- New tax rate for RE and PP at 36.7 mills as compared to 36.1 mills in current year. 1.66% increase.
- Mill rate for MV at 32 mills consistent with new state-wide mill rate – 11.35% decrease.
- Increase in the tax rate for RE/PP will be partially offset by reductions in the MV tax rate.

The budget proposal is presented over the following pages.

APPROPRIATIONS

The combined Town, Debt & Transfer and Education proposed budget increase totals \$3.7± million or 2.47%. The 3 major categories as part of the proposed budget increase are graphically depicted as follows.

Town, Education, Debt & Transfer
2016 - 2017 Proposed Budget



The 2.47% combined increase is compares with recent year adopted budgets.

FISCAL YEAR	2012	2013	2014	2015	2016
	1.86%	2.2%	2.99%	3.14%	2.16%
3 Year Average	2.76%				
5 Year Average	2.47%				

TOWN OPERATIONS

The Town Operating budget proposal submitted to me by Department and Division Directors increased a combined \$1.25 million or 3.17%. Over a series of budget meetings, the budget proposal was reduced by approximately \$351,000± to the 2.28% spending plan described herein. Every effort was made to manage expenditures at current year funding while retaining the efficiency and effectiveness of Town operations.

Approximately 46% of Town operating accounts are the same or below current year levels.

The 7 major factors influencing the proposed budget are summarized below as components of the 2.28% increase.

Major Budget Factors

2016 – 2017 Town Operations

	\$ Change	Budget Increase
WAGES	\$595,040	1.51%
INSURANCE	\$57,009	0.15%
PENSION	\$242,869	0.62%
OPEB	(\$90,230)	(0.23%)
FUEL	(\$42,905)	(0.11%)
CAPITAL OUTLAY	\$91,772	0.23%
ALL OTHERS	\$45,706	0.11%
TOTAL INCREASE	\$899,261	2.28%

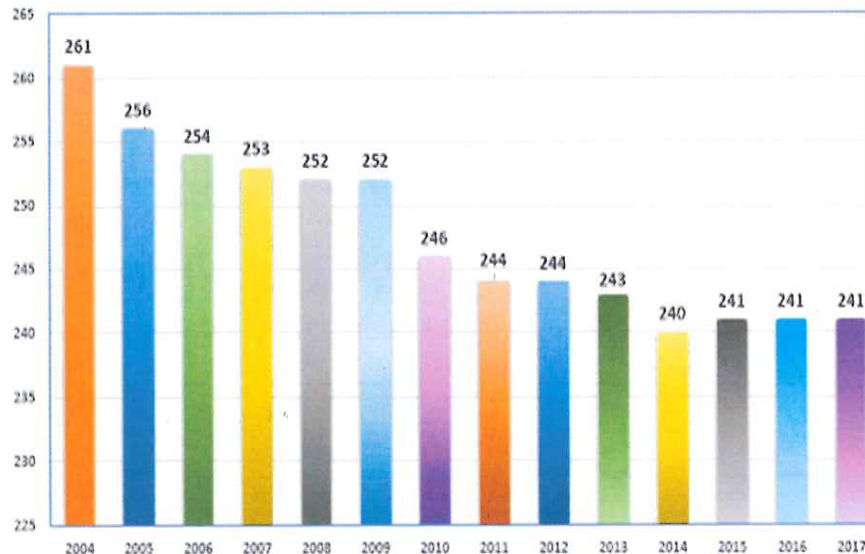
Wages

Wage accounts include full-time, part-time, overtime and unit pay. For 2017, combined wage accounts increase \$595,000 or 2.95%.

Full-time wage accounts assume a 2.25% general wage adjustment (GWA) effective July 1, 2016. A 2.25% GWA was generally approved or negotiated for full-time staff effective July 2015. This compares to a 2% wage adjustment effective July 2011 through July 2014. The 2.25% incorporated to the 2016 and proposed 2017 budgets is based upon ongoing review of approved and negotiated wage increases throughout Greater Hartford and the state.

As the following chart illustrates, full-time staffing has declined by 20 positions, or approximately 8%, over recent years. For 2017, full-time staffing remains level at 241. Efforts certainly continue to identify opportunities to reduce wage and benefit costs through reductions in full-time staffing levels while retaining and improving the quality of Town services.

Town Full Time Staffing



System wide **part-time wages** increase \$75,000±, or 3.6%. This results from 2 primary factors. First, full year funding of the stipend program for daytime part-time Firefighters, and changes to Parks & Recreation program and seasonal/part-time maintenance staff. Of the \$75,000 increase, approximately \$23,000 is directly offset by Parks & Recreation fees and charges.

Unit pay remains unchanged.

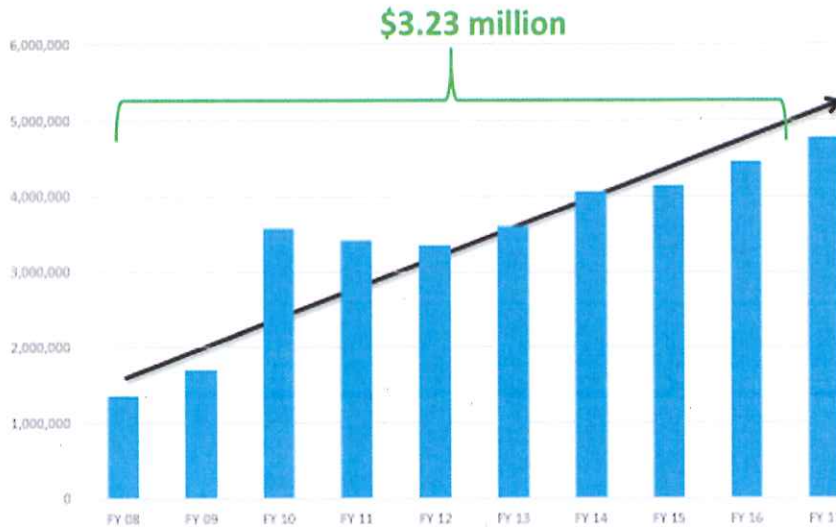
Overtime accounts increase \$77,000 to better reflect system wide overtime costs. Such costs can vary year to year particularly as related to winter storm operations and staffing vacancies.

Pension

The Actuarial Determined Contribution (ADC) continues to be influenced by ongoing efforts to reduce the investment assumption. Since 2008, the investment rate of return has been reduced from 8.75% to 7% effective with the July 2015 valuation. Over those same years, the annual contribution for pension costs has increased \$3.23 million, from \$1.36 million to \$4.6 million for FY 2017. This process has placed significant pressure on Town operations. However, the reduction in the investment return supports ongoing efforts to effectively manage pension sustainability. While challenging, Town operations have been able to successfully incorporate increasing pension costs within modest overall budget increases. Energy efficiency, reductions in full-time staffing, effective insurance cost control, and other such initiatives have helped moderate changes in overall operating costs.

The historic ADC is graphically depicted on the following page.

Annual Pension - Actuarial Determined Contribution (2008 - 2017)



Other Post-Employment Benefits (OPEB)

Annual OPEB costs are funded at 100% of the ADC in the current year and again in 2017. Now funded at \$312,409 annually, the July 2015 valuation by Milliman reduces the annual contribution to \$222,000, or a \$90,000+ decrease for 2017. This decline in funding requirements result from favorable plan experience and updated actuarial assumptions.

Insurance

System-wide insurance accounts generally include Health, Worker's Compensation, Liability, Automobile and Property/Casualty coverages. For 2017 combined accounts increase \$54,000±, or 1%.

Health insurance accounts fully fund the estimated premium equivalent for Town health plans. Modest increases in the premium equivalent for the coming year (5±% range) combine with costs below budget in the current year for a modest change in overall health insurance funding.

Liability, Automobile and Property (LAP) insurances are expected to decrease in the coming year.

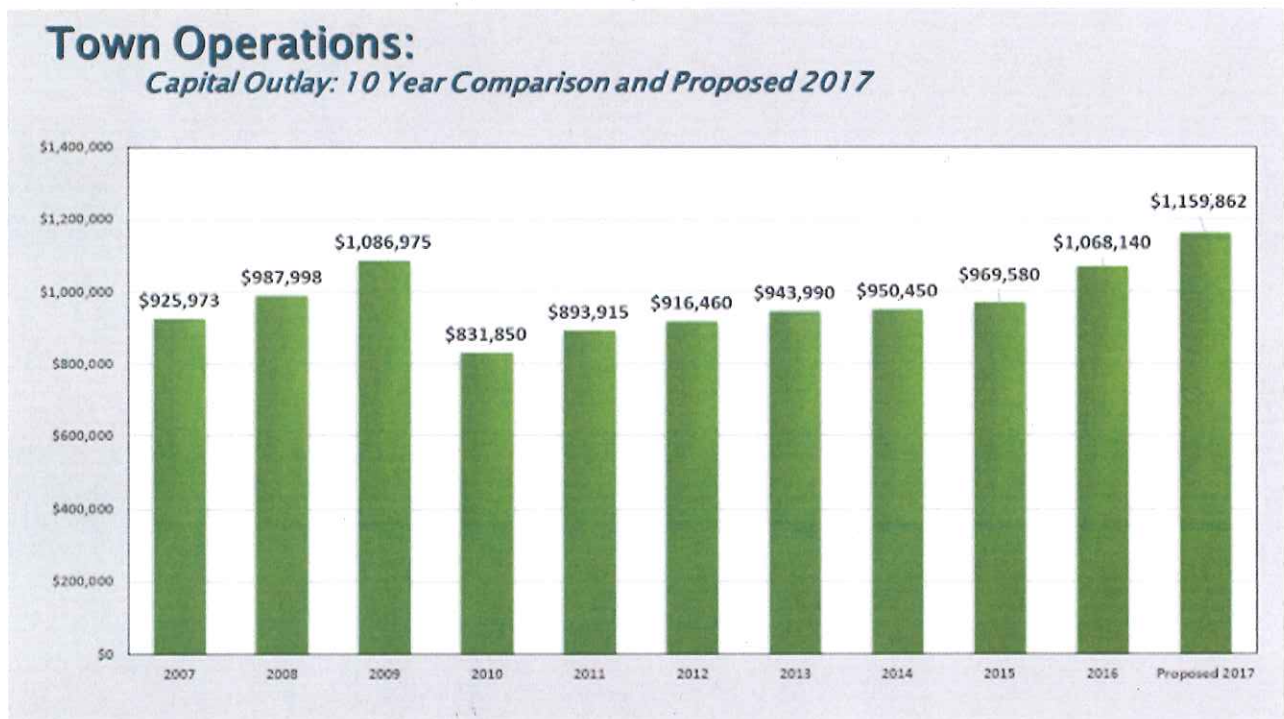
Worker's Compensation – efforts continue to successfully manage the Town's ongoing loss control program to prevent workplace injuries and minimize changes in Worker's Compensation costs. For the coming year, a \$51,000±, or 7.5%, increase in Worker's Compensation costs is forecast. Discussions will continue with HD Segur and CIRMA over coming months.

Fuel

For FY 2016 and 2017, fuel accounts for diesel and unleaded fuel decrease over \$157,000. This results from significant declines in the per gallon unit price and ongoing fuel efficiency throughout Town operations. Fuel markets are continually monitored to evaluate the option of locking in a per gallon rate for coming years or continuing to "float" with the market. This is clearly not an exact science.

Capital Outlay

System-wide Capital Outlay continues as a high priority and as noted in prior years Capital Outlay accounts are best considered on an organization-wide basis. The following chart shows the ongoing commitment to Capital Outlay funding with the continuing goal of achieving a \$1+ million combined appropriation. The proposed budget achieves this goal with combined Capital Outlay funding of \$1.16 million.



When first presented to me by Department and Division Directors at the start of the budget review process, combined Capital Outlay requests totaled \$1.366 million, or a 28% increase over current year funding. The \$206,000± reduction to the \$1.16 million proposed for FY 2017 was achieved by evaluating a number of actions. Specifically, realized savings in the current year, prioritizing expenditures, purchasing efficiencies, and other such steps. The flexibility provided to Department and Division Directors to manage Capital Outlay funding through these various options is much appreciated and in my opinion an effective way to budget for these important line items.

All Other Line Items

The line-items discussed above comprise 13 of the Town's 41 line items and 6 of the 7 primary factors influencing the FY 2017 budget proposed. The 7th factor incorporates "All Other" line-items over 28 of the Town's spending accounts. These line-items are grouped under Supplies and Services and Charges. The "All Other" category involving all Town operations increase a net \$45,706.

The most significant change under the All Other heading involves the following line-items:

- Utilities – System-wide utility accounts decrease \$19,215 as a result of ongoing energy efficiency work and declining unit costs for commodities such as natural gas. The current year budget assumes a \$50,000-\$60,000 per year decrease in electric accounts for the purchase of street lights and retrofit to LED fixtures. The goal is to complete this initiative over coming months to begin achieving savings now estimated at \$130,000+ yearly. Subject to the timing of the proposed transition, a transfer could be required to fund street light accounts in the current year. The utility budget proposed for 2017 assumes the purchase and retrofit process.
- Contractual Services – This account declines \$19,000+ and is most significantly influenced by decreasing Municipal Solid Waste (MSW) tonnage disposed at the Transfer Station. At the same time, possible increases to the CRRA Tip Fee will need to be monitored.

A summary of the Town Operating Budget by major appropriation category is highlighted as follows.

	ADOPTED 2015-2016	PROPOSED 2016-2017	\$ CHANGE	% CHANGE
Personal Services	\$20,150,082	\$20,745,122	\$595,040	2.95%
Supplies	1,298,365	1,325,660	27,295	2.10%
Services & Charges	16,714,982	16,900,186	185,204	1.11%
Capital Outlay	1,068,140	1,159,862	91,722	8.59%
Contingency	175,000	175,000	0	0.00%
Total	\$39,406,569	\$40,305,830	\$899,261	2.28%

Contingency

Charges to the Contingency account have ranged between \$45,000 to \$162,500 over the past 5 years for a 5 year average of \$118,900. The account continues to be funded at \$175,000 and provides flexibility throughout the year when responding to unanticipated funding requirements.

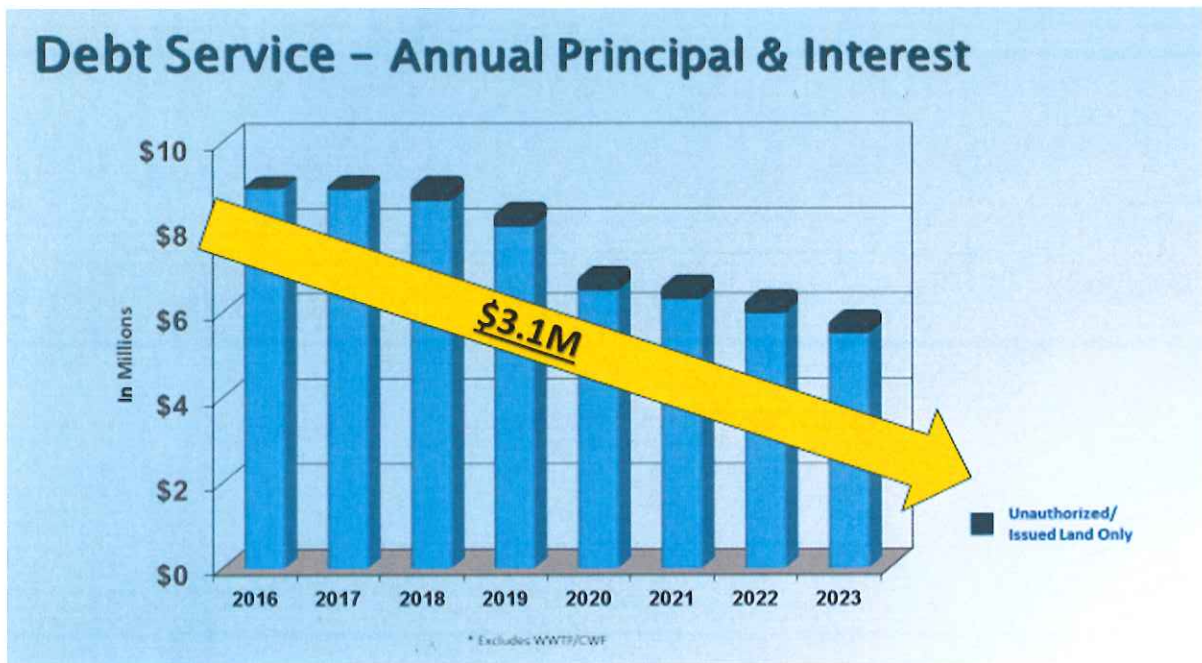
A summary of the Town Operating Budget by major department is as follows:

	ADOPTED 2015-2016	PROPOSED 2016-2017	DIFFERENCE	
			\$	%
General Government	\$3,224,366	\$3,178,714	(\$45,652)	(1.42%)
Community Development	1,754,344	1,876,666	122,322	6.97%
Administrative Services	6,412,431	6,449,580	37,149	0.58%
Public Safety	12,382,071	12,889,886	507,815	4.10%
Physical Services	6,503,674	6,663,424	159,750	2.46%
Sanitation	764,607	767,192	2,585	0.34%
Human Services	2,939,725	2,974,002	34,277	1.17%
Leisure & Culture	5,250,351	5,331,366	81,015	1.54%
Contingency	175,000	175,000	0	0
TOTAL	\$39,406,569	\$40,305,830	\$899,261	2.28%

Debt and Transfer

The Debt and Transfer account appropriates \$9.2 million to annual Debt Service costs and \$5 million for the Transfer to the Capital Reserve Fund. The total of \$14.2 million is unchanged from the current year.

As discussed during the recent Capital Program workshop and illustrated below, annual Debt Service will decrease significantly over coming years. The projections include all authorized bond issues whether issued or yet to be issued (land).



The annual Transfer to the Capital Reserve Fund is proposed at \$5 million consistent with current year funding. A multi-year history is shown below. The \$5 million appropriation for 2017 continues Glastonbury's commitment to funding infrastructure projects on a cash basis.

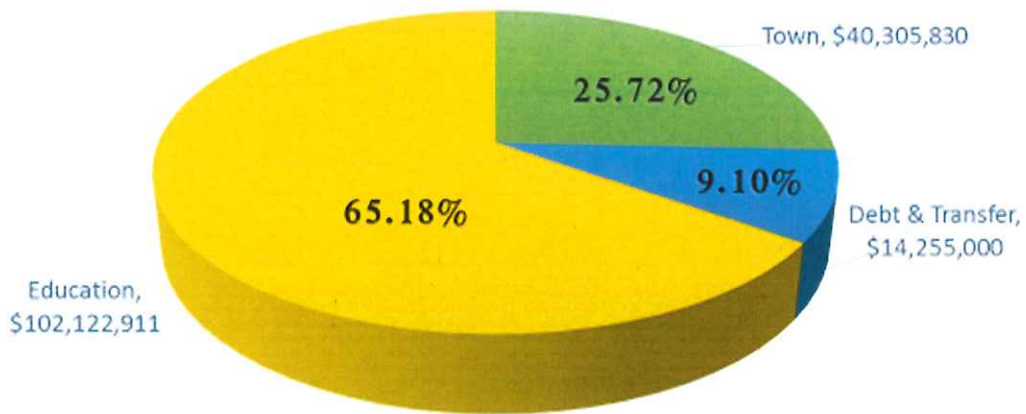
Capital Reserve Transfer

5 YEAR HISTORY



The following chart shows the proposed budget as allocated to the 3 major expenditure categories.

Town, Education, Debt & Transfer (% of Total Budget) Proposed 2016 - 2017



REVENUES

Combined tax and non-tax revenues total \$3.77 million to balance with the proposed \$3.7million expenditure increase described above. All revenue accounts are shown below with substantive changes reviewed over the following paragraphs.

GENERAL FUND REVENUE SUMMARY

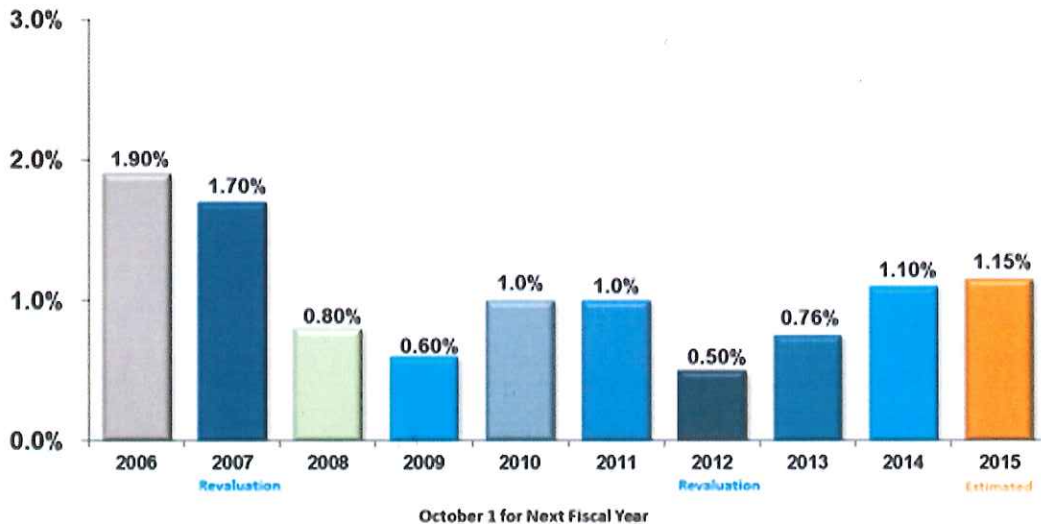
SOURCE	ADOPTED 2015-2016	PROPOSED 2016-2017	DIFFERENCE	
			\$	%
Taxes	\$139,718,965	\$142,079,755	\$2,360,790	1.69%
Licenses & Permits	833,150	956,200	123,050	14.77%
Intergovernmental	7,871,845	9,383,975	1,512,130	19.21%
Charges for Services	1,349,625	1,378,350	28,725	2.13%
Other	2,488,276	2,310,461	(177,815)	(7.15%)
Transfers In	0	0	0	0.00%
Use of Fund Balance	650,000	575,000	(75,000)	(11.54%)
Total Revenues & Transfers	\$152,911,861	\$156,683,741	\$3,771,880	2.47%

Grand List

A 1.15% increase is forecast in the Grand List effective October 1, 2015. This increases the Grand List from \$3.87 billion to \$3.91 billion. The Grand List is on schedule to be finalized by the January 30th statutory deadline.

A historical summary of changes in the Grand List is graphically depicted below.

Grand List Annual Growth
9 Year Actual and Estimated for 2015



Before discussing the tax rate for proposed FY 2017 and other revenue categories, I want to review 2 new Intergovernmental Revenues enacted by legislative action effective in the coming fiscal year.

Motor Vehicle Tax

Effective with the October 1, 2015 Grand List (FY 2017), there is a cap on the motor vehicle mill rate (MVMR). The state-wide cap is 32 mills for Grand List year 2015 and 29.36 mills for each Grand List year thereafter. With the new state-wide mill rate, there are 2 new grants to cities and towns.

Motor Vehicle Property Tax Grant – OPM will distribute Motor Vehicle Property Tax grants to cities and towns to offset revenue losses from the MVMR cap starting in FY 2017. The grant amount is the difference between the property taxes a community levied on motor vehicles in the 2013 assessment year (FY 2015) and the amount of the levy for that same year had the tax rate been set at the cap (32 mills for FY 2017 and 29.36 mills for FY 2018 and beyond).

For Glastonbury the grant for next fiscal year is estimated using the 35.65 mill rate enacted for the 2013 Grand List year (FY 2015) as compared to what would have been levied using the 32 mill rate cap. The difference totals approximately \$1 million which is the estimated motor vehicle grant to Glastonbury in 2007.

The proposed budget incorporates this Intergovernmental Revenue based upon the preceding calculation.

Municipal Revenue Sharing (MRS) Grants

Also starting in FY 2017 is a new MRS grant. This grant is funded by allocating ½ cent of the State Sales Tax to fund ECS, PILOT, Motor Vehicle and MRS grants. For Glastonbury this new grant is estimated at \$1.086 million in FY 2017.

While all discussions to date indicate this grant will be sustained in the coming year as originally enacted, the budget proposal assumes a \$500,000 MRS grant. This amount which totals approximately 50% of the projected grant is presented as a hedge against possible changes when Governor Malloy releases his budget over coming weeks. Provided the MRS is funded as originally estimated and all other Intergovernmental Revenues are sustained at proposed levels, the additional \$500,000 in aid could be allocated to reduce the tax rate, increase the Capital Reserve Transfer, or some other combination.

As always, the Governor's budget and State legislative action will be closely followed.

Property Taxes

All tax revenue accounts combine to increase \$3.77± million, or 2.47% commensurate with proposed expenditures. The current levy increases \$2.36± million. All other tax revenue accounts remain unchanged. The \$2.36± million increase in the current levy includes the estimated 1.15% growth in the Grand List and the new 2-tier mill rate for real estate and personal property (RE and PP), and motor vehicles (MV).

As noted above, a state-wide mill rate of 32 mills is established for FY 2017. This means there will be a mill rate for RE/PP that is different from the mill rate for MV. The proposed budget translates to a 1.66% increase in the mill rate for RE/PP from 36.1 to 36.7. This is offset by a decrease in the tax rate for MV from the current 36.1 to 32 mills.

A comparison of the proposed budget under the 2-tier mill rate for the average residential and MV assessment is shown below.

	2015-2016	2016-2017	\$ DIFFERENCE	% DIFFERENCE
RE	\$8,326	\$8,465	\$139	1.66%
MV	\$740	\$655	(\$85)	(11.5%)
ANNUAL TOTAL	\$9,066	\$9,120	\$54	.6%

Notes:

- Average residential assessment is \$230,650.
- Average MV assessment \$10,240.
- FY 2016 mill rate 36.1.
- FY 2017 mill rate 36.7 RE/PP, and 32 MV.
- MV annual taxes assume 2 motor vehicles per household.
- October 1, 2015 Grand List – 14, 500 residential properties; 31,800 motor vehicles.

For comparative purposes, the mill rate for the coming year, before incorporating the new state-wide mill rate, would increase 1.52% from 36.1 to 36.65 mills. Essentially this is the calculation in a “typical” year before the new state-wide mill rate.

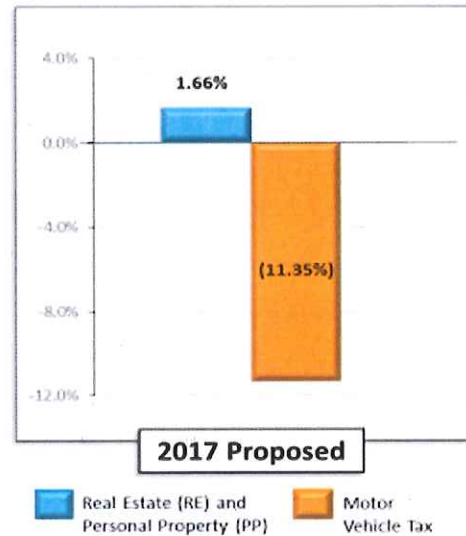
Tax Collection Rate

For many years, a 99% collection rate was assumed when establishing the mill rate. For FY 2016 the collection rate assumption was increased to 99.1%. This increase resulted from annual combined (RE/PP/MV) collection rates of 99.4±% over recent years.

As might be expected, the collection rate for the 3 components of the Grand List (RE/PP/MV) are not equal. When considered separately, the historic collection rate for MV is generally in the 98.5% collection rate while RE and PP more closely approximate the historic 99.4+% collection rate. With the preceding in mind and the 2-tier mill rate, a different collection rate is applied to RE/PP and MV for 2017. Specifically, a 99.2% collection rate for RE/PP and 98.5% collection rate for MV. This translates to a 36.7 mill rate for RE and PP under the proposed budget along with the state-wide 32 mill rate for MV.

The annual tax increase for the past 5 years and proposed for the coming year is shown below.

Annual Tax Increase



Other Non-Tax Revenues

- **License & Permits** – aggregate revenues under this category increase \$123,050. The primary change is a \$50,000 increase in estimated building permit revenues from \$500,000 to \$550,000 to better approximate building activity.
- **Intergovernmental Revenues** – this revenue category is the largest non-tax revenue account totaling a proposed \$9.4± million in 2017 as compared to \$7.9± million in the current year. The \$1.5+ million increase generally results from the MV and MRS grants described previously.

As noted previously, State budget actions will be closely followed over coming weeks and up to date information will be provided through the Connecticut Conference of Municipalities.

The following chart compares Intergovernmental Revenue to Glastonbury over multiple years.

Historical Comparison of Intergovernmental Revenue

**In thousands*



- **Charges for Services** – this revenue category remains relatively flat with increases in Town Clerk Recording Fees largely offset by re-programming of revenues from Solid Waste Tip Fees (Charges for Services to Licenses & Permits).
- **Other Revenues** – decrease a combined \$177,815. The most significant decrease involves \$125,000 reduction in Interest on Investments from \$400,000 to \$275,000. This change reflects ongoing investment results and continuing market challenges. While staff perform very well in maximizing returns, the \$275,000 is recommended as a better estimate of results in the coming year

The combined increase of \$1.48 million in non-tax revenues is shown below in comparison to recent years. Again, the increase is generally attributed to the new state grants for motor vehicles and Municipal Revenue Sharing.

Revenues and Transfers

Budgeted and Actual non-tax revenues (in thousands)

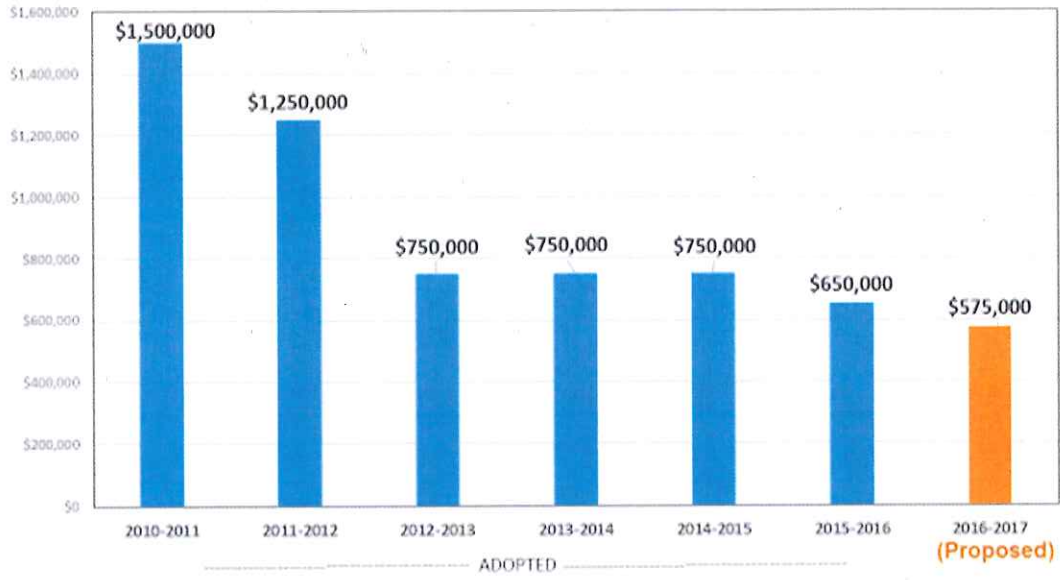


General Fund – Transfer In

The General Fund-Transfer In was reduced by \$100,000 from \$750,000 to \$650,000 in the current year. The proposed budget further reduces the Transfer-In to \$575,000 in FY 2017. The decrease of \$75,000 further reduces the use of General Fund resources for ongoing operations to help better meet and exceed the 12% minimum Unassigned Fund Balance threshold and make such financial assets available for one-time purposes, as applicable.

The following charts show Use of Fund Balance on a multi-year basis and the General Fund – Unassigned Fund Balance including actual and projected results.

Use of Fund Balance



Fund Balance as a % of Actual Expenditures/Adopted-Projected Budget



Special Revenue Funds

A budget for each of the **Special Revenue Funds** to include Recreation activities, Police Private Duty, Wastewater Treatment operations and the Riverfront Boathouse are incorporated to the budget document. Each Fund is performing successfully.

Tax Abatements

A \$900,000 adjustment is assumed when calculating the proposed mill rate. This adjustment recognizes combined tax relief programs for Public Safety Volunteers, Farm Buildings, and Elderly Tax Relief. The \$900,000 adjustment is consistent with the current year adopted budget.

The budget proposal presented herein effectively balances the various factors influencing the community's ongoing budget and financial management and achieves the objectives outlined earlier in this letter.

Sincerely,

Richard J. Johnson
Town Manager

RJJ:yo

cc: Glastonbury Town Council
Diane M. Waldron, Director of Finance & Administrative Services