

MARCIA A. LECLERC
MAYOR

Office of the Mayor

May, 2012

To the Members of the Town Council and to the Residents of the Town of East Hartford:

By way of this letter, let me respectfully submit to you the Adopted Budget for the 2012-2013 fiscal year. The construction of this budget was against a backdrop of three overarching themes. The first theme being the State mandated revaluation of property here in East Hartford for the 2011 Grand List. Please recall that the process known as revaluation does not increase or decrease taxes. The process simply reallocates who pays those taxes based on updated residential and commercial property values.

Most people recall the last time we revalued in 2006 whereby residential real estate values were at record highs. As a result, our grand list, which is the total value of all property located in our community, experienced a dramatic rise in residential property values compared to the prior revaluation. The rise in this one segment of the grand list while other segments remained relatively unchanged resulted in a shift of taxes away from commercial properties and onto residential properties. In 2006, residential real estate taxes increased on 94% of all town parcels in amounts averaging 20% with some increases exceeding 50% while commercial real estate taxes declined sharply.

The 2011 revaluation has been completed and the results are very different from 2006. In total, residential property values declined by \$412 million (\$1.9 billion compared to \$1.5 billion), or 22%. While there were also small reductions in the value of commercial property (\$765 million compared to \$748 million), vacant land (\$26 million compared to \$25 million), personal property (\$433 million compared to \$412 million), there were also increases in motor vehicle values (\$249 million compared to \$270 million). However, the loss of \$412 million in the value of residential property has caused a shift of taxes away from residential properties onto commercial properties.

In fact, 60% of taxpayers will pay the same or less in real estate taxes this year when compared to last year. The breakeven point, which is defined as the point where the loss in residential real estate value correlates to a residential property owner paying no more or less in taxes than the prior year is 19.5%.

For 40% of the residential property owners where the value dropped less than 19.5%, taxes will increase. These residential property owners where the property value was better maintained against the 19.5% benchmark will see increasing taxes proportionate to how well their property value stood up against the real estate value downturn. Conversely, residential property owners whose value fell in proportion greater than 19.5% will see a correspondingly greater decrease in their taxes compared to the prior year even with a higher mill rate. About 18% of real estate parcels will see a 10% reduction in taxes year over year.

Know that it is extremely difficult to present anything other than generalities related to revaluation since each neighborhood has held or lost value differently than others and each home with respect to structure and condition within each of those neighborhoods is distinct. Accordingly, we can only speak in general terms and acknowledge that there will always be exceptions to the general rule. Analysis has shown that newly constructed homes have maintained value better than older housing stock and that certain older housing stock maintained their value relatively well compared to the prior revaluation.

In order to balance the current year 2011-2012 budget using the revalued grand list, the mill rate would have to increase from 34.42 to 39.53. Please understand that this mill rate change is entirely related to revaluation changes and does not address changes related to balancing the budget.

The mill rate under this budget will increase to 42.79. However, due to the sharp decline in residential values, the average taxpayer will see a reduction in their real estate taxes of \$379. Admittedly, some of these savings will be eroded because the higher mill rate will cause motor vehicle property taxes to increase. For every vehicle a resident owns in East Hartford with a value of \$10,000 in the current year, their car tax will increase by about \$58 in the coming year.

While revaluation is perhaps the largest theme of this budget, the second theme this budget was created under was the town's ability to reverse the overall erosion in its financial position in a number of areas caused by the economic downturn. As we have seen on a Federal level and more recently with the State bond rating downgrade, bond rating agencies are taking a long, hard look at the operation of governments and adjusting their credit worthiness accordingly. In order to maintain our bond rating, a measure of our creditworthiness, in order to keep the cost of operating capital available to us at a low level, the following fiscally austere measures are incorporated into this budget:

- This budget was created using generally accepted accounting principles
- No borrowing or use of one-time revenue sources was used to balance this budget
- This budget fully funds the town's pension obligations
- This budget consolidates Public Works Maintenance employees with Parks Maintenance employees
- This budget begins appropriate consolidations with the Board of Education starting with trash collection
- This budget funds current and retiree medical increases
- This budget increases Worker's Compensation and General Liability reserve contributions to appropriate levels

A comparison of East Hartford with border towns is presented below to determine how East Hartford stacks up against surrounding communities. These statistics, in key areas, are presented using the State Office of Policy and Management's November, 2011 report which is based on town reporting to the State for the period ended June 30, 2010.

Town/Category	East Hartford	Glastonbury	Manchester	Wethersfield	Hartford	South Windsor
Bond Rating	Aa2	Aaa	Aa1	Aa2	A1	Aa2
Pension Funding %	68.2	78.1	81.3	92.1	96.6	53.2
Population	51,318	34,467	58,354	26,695	124,744	25,751
Per Capita Income (\$)	21,763	40,820	25,989	28,930	13,428	30,966
Debt per Capita (\$)	1,207	2,404	1,438	1,252	2,430	1,204
Net Per Pupil Education Exp. (\$)	11,413	12,072	13,442	13,071	17,525	12,774
Tax Collection Rates (%)	97.7	99.1	98.2	99.0	95.8	98.5
Unemployment (%)	11.7	6.5	8.8	8.8	16.1	7.0
Town Aid to Needy Families (%)	2.05	0.14	1.23	0.28	5.19	0.16
Prop. Tax as a % of Total Rev. (%)	62.6	84.4	71.2	80.9	48.2	78.0
Net Grand List Value (\$ Billions)	3.1	4.1	4.3	2.3	3.6	2.7
Tax Levy per Capita (\$)	1,902	3,451	2,123	2,648	2,085	2,927

From the data above, East Hartford continues to enjoy a solid bond rating and is on the lower end of the pack as far as pension funding and per capita income. With respect to Educational spending, East Hartford has the lowest net per pupil spending and was the only abutting community to decrease its net per pupil educational spending year over year. We have less bonded indebtedness than every other community, except South Windsor, and we have higher unemployment and far more needy families than most of our neighbors.

We have a proportionally smaller grand list, and yet, on a per capita basis, East Hartford taxes lower than surrounding communities and still manages to offer a wide variety of services not provided by neighboring communities including paramedic level medical response, a full-time Fire Department, curbside and bulky waste collection, and an elderly and disabled transportation system.

Our community continues to emerge, albeit very slowly, from the nation-wide recession. Non-tax revenues including interest income, the conveyance tax, building permit fees, and some grants provided by the State have not returned to pre-recession levels, leaving East Hartford's grand list as the primary source of revenue available to our community to pay for these budgeted services.

Town Services - 2009-2011 Budgets

In the 2010-2011 budget, twelve full-time positions were eliminated including one Deputy Police Chief, one Assistant to the Police Chief, five Police Officers, one Emergency Services Dispatcher, one Waste Services Supervisor, one Tax Clerk, one Information Technology Specialist, and one Administrative Clerk. This was on top of position eliminations in the 2009-2010 budget to achieve no tax increase and included four police officers, one Assistant Fire Chief, one firefighter, one dispatcher, seven administrative positions in Town Hall, two nurses, two laborers in Public Works and Parks, the Assistant Director of Public Works, one librarian, and the Recycling Coordinator.

Town Services - 2012-2013 Budget

The third theme by which this budget document was created was the idea that existing service levels will be maintained. In some areas, we need to enhance services, so one Assistant Fire Chief was added, we moved a part-time Information Technology employee back to full time, we combined two part-time secretarial employees into one full-time position, we moved one part-time clerical worker in the Parks Department to full-time to address recreation program registrations, and we added funding to restore the Summer Youth Jobs Program to aid in the maintenance of various public lands.

Additionally, we added funding to address a variety of initiatives including:

- funding associated with the construction/renovation of a regional building to be used as a regional no-kill animal shelter
- funding to kick-start various initiatives which seek to attract businesses to our community
- funding to re-open Goldstar Pool to bring all five pools back online over the summer
- funding to allow Corporation Counsel the tools to mandate property code/delinquent taxes compliance by court action
- funding to upgrade the town's desktop software to the current version of Microsoft Office
- funding to begin the process of updating the State mandated 10-year Plan of Development
- funding to add electronic time clock recording to better track and record employee time worked

Future Infrastructure Maintenance and Bonding, Equipment

As part of the 5-Year Capital Improvement Plan, the town will also invest in replacement equipment including ten Police cars, property acquisition for the Public Library expansion, street light improvements, generators, and various facility improvement measures under an Energy Performance Contract, a wood chipper, a leaf removal machine, a Public Safety utility vehicle, life packs, demolition of the old Fire House # 5, dump bodies, painting, window and door replacement at Fire House # 6, improvements to tennis courts, and certain other necessary equipment.

\$10 million of new bonding will be considered to send to the voters in a November, 2012 referendum with the proceeds used to continue to address the costs of our annual Road Improvement Program.

Board of Education Spending

This Adopted Budget sends \$85.8 million to the Board of Education, an increase of \$3.3 million, or 4.0%. I am convinced this increase is necessary to give the Board of Education the minimally necessary funding to provide the tools to educational staff to address and positively impact the achievement gap that exists in our community. An additional \$675,000 was set aside in Contingency for the purpose of benefiting Willowbrook and Synergy in the event the State budget does not produce additional aid to the Town to be used in those areas.

The Governor has recommended that the Legislature send an additional \$1.7 million in Educational aid to East Hartford with certain spending requirements. As of the production of this budget, any new aid is most likely to be delivered as a grant to the Board of Education. Accordingly, that funding has not been incorporated into this budget.

Key Budget Statistics

- Total budget spending is \$168.0 million. This is an increase of \$7.6 million, or 4.7% compared to the prior year.
- Spending for Town government is budgeted at \$50.7 million. This is \$611 thousand, or 1.2% higher than the prior year.
- Health Benefit/Insurances spending is budgeted at \$11.7 million. This is \$3.4 million, or 40.7% higher than the prior year.
- Pension & Retirement spending is budgeted at \$10.4 million. This is \$165 thousand, or 1.6% higher than the prior year.
- Educational spending is budgeted at \$85.8 million. This is \$3.3 million, or 4.0% higher than the prior year.
- Town and BOE Debt Service spending is budgeted at \$8.1 million. This is \$204 thousand, or 2.6% higher than the prior year.
- Capitol Improvement spending is budgeted at \$1.3 million. This is \$30 thousand, or 2.2% lower than the prior year.
- The proposed mill rate of 42.79 is 8.4 mills higher than the current year but due to the dramatic reductions in residential property values since the last revaluation, overall residential taxes declined by 1.6%, but individual results will vary.

This Adopted Budget for the 2012-2013 fiscal year, including comparisons to 2010-2011 and 2011-2012 is presented below:

	REVISED	REVISED	%	RECOMMENDED	% Change	\$\$\$
	<u>FY 2010-11</u>	<u>FY 2011-12</u>	<u>Change</u> <u>(prior</u> <u>year)</u>	<u>FY 2012-13</u>	<u>(prior</u> <u>year)</u>	<u>Inc. (Dec.)</u>
TOWN (excludes Benefit & Ins. costs)	\$ 48,368,496	\$ 50,085,931	3.6%	\$ 50,697,477	1.2%	\$ 611,546
HEALTH BENEFITS/INSURANCES	7,282,648	8,338,500	14.5%	11,732,000	40.7%	3,393,500
PENSION/SS BENEFIT COSTS	9,434,011	10,205,115	8.2%	10,369,724	1.6%	164,609
BOARD OF EDUCATION	76,548,237	82,498,910	7.8%	85,766,419	4.0%	3,267,509
TOWN AND BOE DEBT SERVICE	8,127,897	7,894,913	-2.9%	8,099,382	2.6%	204,469
CAPITAL IMPROVEMENTS	1,232,083	1,354,073	9.9%	1,323,619	-2.2%	(30,454)
TOTAL	\$ 150,993,372	\$ 160,377,442	6.2%	\$ 167,988,621	4.7%	\$ 7,611,179

In closing, I want to take this opportunity to thank the members of East Hartford's Legislative Delegation, the East Hartford Town Council, and those from our community who shared their thoughts with me on this budget.

Sincerely,
The Town of East Hartford

Marcia A. Leclerc, Mayor