

**Town Council Budget Sub-Committee Recommendation  
December 12, 2017**

The Sub-Committee met on three occasions (12/4, 12/6 & 12/12) to discuss the FY18 Town Budget in light of the recent actions taken by the State Legislature and the Governor. The net result is that State Revenues are being reduced by \$1,904,005 from what was anticipated. This reduction is occurring almost halfway into the current fiscal year leaving little opportunity to reduce expenditures in the remaining months.

In addition to the \$1.9M reduction in State Aid, the Sub-Committee also reviewed the current status of the Health Insurance Fund. In the mid-1990's, Plainville switched from a *fully insured plan* to a *self-insured plan*. Since that time, the Town has paid for the actual claims incurred rather than allowing for a health insurer to add their "profit" or "risk" on top of the anticipated/actual claims. For many years since that time, the Health Insurance Fund has maintained a surplus.

However, since March of this year, actual claims have greatly exceeded the expected claims by almost \$1.6M. Coupled with other expenses from the Health Insurance Fund (i.e. stop loss, administrative fees, etc.), the deficit in the Health Insurance Fund now stands at approximately \$2.3M. The Sub-Committee recognizes that this deficit needs to be addressed at this time as well as the loss of state aid.

Town and School staff identified possible reductions/savings in the current fiscal year. Those potential savings are:

	<u>Estimated Savings</u>
• Debt Service Reduction (\$4.7M to \$4.4M)	\$ 287,722
• Hiring Freeze 3 positions until 7/1/17	90,000
• Capital Improvement Adjustments	73,230
• Eliminate Sunday Hours @ Library (10 weeks)	6,348
• Board of Education Savings/Reductions	<u>220,000</u>
TOTAL	\$ 677,300

These potential savings in the current fiscal year would reduce this year's deficit to \$1,226,705 in addition to the current Health Insurance Fund deficit of approximately \$2.3M.

The Sub-Committee also reviewed the current status of the Unassigned Fund Balance. According to the latest Financial Dashboard, this now stands at \$9,001,630 or 15.4% of the FY18 Approved Budget. Based upon current Rating Agency Recommendations, the Sub-Committee is recommending that the Unassigned Fund Balance should be lowered to no less than 12% or \$7,023,023. This is a difference of \$1,978,607. It was also noted that Rating Agencies look very unfavorably upon Municipalities that use unassigned fund balance for on-going operational expenses. Due to the shortfall in the Health Insurance Account, as detailed above, it is the recommendation of the Sub-Committee to have the Town Council begin to replenish this account via Additional Appropriations as detailed in the Town Charter utilizing the \$1,978,607 available above the 12% threshold.

The Sub-Committee then reviewed the FY18 Revenue estimates and it was determined that the other sources of revenue, not associated with state aid, are currently expected to come in as estimated.

Based upon the projected expenditure savings in the current fiscal year or \$677,300 and the need to use the available unassigned fund balance of \$1,978,607 to replenish the Health Insurance Fund, the Sub-Committee is recommending that a supplemental tax levy of 0.75 mills (2.3%) be adopted by the Town Council. Pursuant to current State Statutes, a supplemental tax levy (if there is to be one) must be adopted by February 1, 2018.

For the average homeowner currently paying \$4,086 in taxes (house valued at \$178,650, assessed at \$125,055), this would result in an increase of \$94.00.

This supplemental tax levy will result in approximately \$990,749 in additional revenues in the current fiscal year. The supplemental tax levy is not expected to cover the full amount needed. It would still leave a projected deficit in the current fiscal year of \$235,957. The Sub-Committee recognized and is hopeful that this could be reduced by the end of the fiscal year if past budget trends continue.

State Aid Reduction (incl. Governor's Holdbacks)	\$1,904,005
FY18 Savings	- \$677,300
Supplemental Tax Increase Revenue	<u>- \$990,749</u>
FY18 Projected Deficit	- \$235,957

The Sub-Committee also recognized the following factors/unknowns, all of which could **NEGATIVELY** impact the Town Budget and Financial Operations going forward:

1. The FY18 State Budget currently has a \$208M deficit. As part of the Governor Deficit Mitigation Plan proposed on December 13<sup>th</sup>, he suggested as one option further reducing ECS or Pequot monies to the Municipalities.
2. The State Budgets for FY20 and FY21 are currently projected to have a deficit of \$2B +/- in each year. While the proposed new formula for ECS would increase funding to Plainville in future years, given the projected deficits, this is not something that our community should count on.
3. Even with the Additional Appropriations recommended for the Health Insurance Fund there will still be a substantial deficit going forward in FY19 if the current trend of "actual" claims continue as they have over the last nine months. **It is anticipated that a significant increase in the FY19 Town Budget will be necessary for the health insurance line item.**
4. Over the last two years the Police overtime line item has seen expenses exceed the budgeted line item by \$250K and \$225K respectively. For the current year, Police OT is running almost \$58K below the last two years average but, the line item is still expected to exceed the budgeted amount. In past years these "overages" have been covered by additional appropriations from the Unassigned Fund Balance. Given the expected "drawdown" of the unassigned fund balance in the current year to 12%, it would not be prudent to continue to underfund the Police OT line item going forward.
5. Unassigned Fund Balance has been used to supplement the Capital Improvement Budget. Over the last three years the average amount contributed averaged \$165,000. This support from the Unassigned Fund Balance will not be as available going forward necessitating either an increase from the General Fund contribution to cover the current level of funding or decreasing the number of projects that can be funded. The CIP Budget has historically been underfunded based upon the number of submitted requests each year.

The Sub-Committee recognizes that significant changes may be necessary to address **the current and future reductions** in state aid to Plainville. These changes will either require tax increases above

what has happened over the last eight years, a reduction in services provided by both the Town and Board of Education, or a combination of both.

Looking forward those possible changes could include further reductions to both Town and Board of Education existing services – and/or with some tax increases – may be necessary.

In conclusion, the recommendation to issue a supplemental tax levy of 0.75 mills or 2.3% was very difficult, however, ***the sudden significant reduction of State Aid*** almost halfway through our fiscal year does not give us much choice. A drawdown of the Unassigned Fund Balance below the recommended minimum floor of 12% would not be prudent and would place the Town finances in a precarious position given what we know today going forward into the future. Failure to address the Health Insurance Fund, which has been greatly negatively impacted since the budget was adopted last March, is not an option as well.

Respectively Submitted:

Town Council Budget Sub-Committee

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