A STRATEGIC PLAN FOR FAIRFIELD – PART 1

What is a Strategic Plan?

This is the first in a series of papers from Fairfield Taxpayer on this subject, which we hope will contribute to the creation of an effective strategic plan that will allow Fairfield to continue to prosper by keeping our Town both desirable and affordable for all its residents. As you will see and as we readily acknowledge, we raise far more questions than we answer. Our primary objective at this early stage is to stimulate thinking and debate among as many of Fairfield's stakeholders as possible on where we should focus and what additional information and analysis would be most helpful. One place you can go to express your views is www.FairfieldStrategicPlan.com, a new website created by Fairfield Taxpayer.

Part 1 will address "***What is a Strategic Plan?***" and why we agree that having one would be good for our Town. Parts 2 and 3 will address the basic questions that every Strategic Plan should answer: "***Where are we and how did we get here?***" and "***Where should we go and how should we get there?***" Finally, Part 4 will recommend some "***Next Steps***."

What exactly is a Strategic Plan?

A strategic plan is ultimately supposed to ***explain where we should* go and how *we should get there***. Strategic plans are common in the business world, where all public companies are expected to be able to explain how they will create value. However, strategic plans can be equally valuable in all other human affairs, from an individual to a nation seeking to achieve certain goals. Every person and every organization actually has a strategy, whether they know it or not, but without an explicit plan, that strategy is merely ***implicit*** in the decisions they make that affect their future, and without a plan, some of those decisions and choices may be suboptimal or even counterproductive. So, the most important word in our definition is "***explain,***" because a good strategic plan requires ***explicit*** answers to those basic questions. A strategic plan does not guarantee success, but it should at least facilitate better and more consistent decisions by stating clear objectives and priorities, and by helping us understand better how different means are likely to serve our chosen ends.

If Fairfield has prospered for 376 years without a strategic plan, why do we need one now?

The short answer is that the world has changed in some important ways, five examples of which are as follows.

1. **General economic conditions** have changed as the rising tide of Post-War prosperity that lifted all boats in the second half of the 20^{th} Century has ebbed. The economy, jobs and personal incomes are now growing more slowly, if at all, particularly in Connecticut, which has some major problems. Fairfield's continued prosperity will probably therefore require more planning than was necessary in the past.

2. For better and for worse, some 376 years after its founding, **we live in a much more mobile society** in which people who live their entire lives in one town are increasingly rare. Every town must therefore compete with others to attract and retain residents and Fairfield may want to consider the best ways to continue to do so.

3. **The demographics of America's population are changing**, due to the aging of Post-War Baby Boomers combined with steady increases in longevity. Fairfield should consider what the implications may be for all the public services it provides and the economics of doing so.

4. Like virtually every other town, city and state in America, Fairfield has incurred very substantial **financial liabilities** due to the contractual promises it has made to public employees for post-retirement benefits. The Town should consider carefully its ability to continue to meet all of its obligations, particularly if investment returns are not as favorable as has been assumed.

5. **Technology** is advancing at an accelerating pace, so Fairfield may want to consider opportunities to operate more efficiently and to provide new and/or better public services (e.g., municipal broadband service).

Given these and other changes, Fairfield might be able to continue to prosper without a strategic plan, but maybe not. At the very least, perhaps Fairfield can do even better with a plan than without one.

<u>How do we create a strategic plan?</u>

A strategic plan for Fairfield **can only be created by engaging all interested residents, businesses and other stakeholders in a systematic and collaborative effort** to analyze all of our major strategic options (including the *status quo*) and their likely consequences. This is far more easily said than done because our ability to anticipate consequences depends on our ability to predict the future, which we all know is subject to enormous uncertainty. Accordingly, there will inevitably be disagreements about the future costs, benefits and risks associated with various options, with some participants strongly opposed to change and others strongly in favor of it. Even though there will never be perfect agreement on all the potential consequences or on their relative importance, participants should at least come to understand better the forces that will determine our future, and what, if anything, we might be able to do about them. Over time, because a strategic plan should be regularly updated to reflect changes in the circumstances and assumptions upon which it was based, the people of Fairfield and their elected representatives should end up far better informed and able to make better decisions and choices than they would have without a comprehensive and systematic planning process.

<u>Some Basic Organizing Principles</u>

It is helpful to begin with some basic principles about strategic planning in order to manage better both the process and everyone's expectations about what to expect from it.

1. ***Perfection and precision are not possible***. As the old sayings go, "*The best laid plans of mice and men often go astray*," and "*Man plans and God laughs*." Since we cannot presume to figure out precisely where Fairfield should go and how it should get there, our pragmatic objective should be, as one expert said, to agree on "***a sense of direction around which to improvise***." In other words, because we can't be certain how the world will evolve around us (e.g., will the State continue to struggle and lose jobs and residents, or will it rebound?), we must remain receptive to opportunistic course corrections based on new information and developments, including changes in our priorities.

2. ***Don't lose the forest for the trees***. Because everything is ultimately connected in some way to everything else, it is easy to get lost in the complexity of strategic planning, which can lead to "analysis paralysis." Accordingly, particularly in the early stages of planning, it is important to seek agreement on what the most important issues are and then focus on them. There is always plenty of time to come back later and consider the secondary and tertiary issues. This principle applies equally well to companies, success for which usually depends on perhaps three or four major decisions. Most good strategic plans boil down to just a few very important choices. [1]

3. The first big step is to ***figure out where we are and how we got here***. In the business world, the "where we are" part is usually addressed in part by what is called a **"SWOT" analysis, which refers to the identification and analysis of Strengths, Weaknesses, Opportunities and Threats**. We will need a similar analysis for Fairfield as part of a broader examination of what is happening in our **region**, in our **State**, in our **country** and in the **world** that can affect our **Town**. Some examples across this wide range of strategic influences include: the condition of neighboring towns like Bridgeport; the health of the New York City metropolitan area in general; the ability of the State to improve its fiscal condition and address its increasingly critical infrastructure needs (e.g., Metro-North); and the potential consequences of climate change for our coastal areas. This essential first step creates a foundation upon which to evaluate and prioritize various strategic issues and options.

4. Once we understand better where we are and how we got here, the next step is to ***define our goals***, which will require us to agree on ***how we want to define and measure success***. This step is much easier in the private sector where everyone (usually a board of directors acting on behalf of the shareowners) generally begins with the common goal of optimizing the long-term financial value of the company. In the public sector, this step is much more difficult, because there are so many different ways to measure success. For example, some towns might consider themselves successful only if they are able to preserve their character by preventing any further development, while others would consider themselves successful only if they are able to do the exact opposite.

   A few examples of "key performance indicators" (KPIs) that we could adopt to measure our success, in no particular order, are: property values; public health and safety; school performance; voter turnout; credit rating; environmental sustainability; and civility and friendliness.

   In our consideration and choice of KPIs, it is important to remember, as Albert Einstein said, "*Not everything that can be counted counts, and not everything that counts can be counted*." This simply means that some important objectives, like Town character, friendliness and civility, are not easy to measure in quantitative terms, but that does not mean they are any less important than the ones that are easy to quantify. And since, as Peter Drucker said, "*What gets*

[1] For example, Apple Computer: Integrate hardware and software in a user-friendly, closed system + focus + PC as digital hub = Mac, iPod, iTunes, iPhone, App Store, iPad, iCloud, iTV = World's Most Valuable Company.

measured, gets done," we don't want to focus more than we should on quantitative goals at the expense of what could be equally important qualitative goals.

5. Once we have defined our objectives and decided how we want to measure our performance, the next step is to **look at our major strategic options**, by which we mean the things upon which a future historian might focus in describing 50 years from now how Fairfield had changed or not changed. Some examples of big options are as follows:

   - **Tax Rate**: What is the right tax rate for Fairfield? Our tax rate is currently much higher than some neighboring communities (e.g., Westport, New Canaan, Darien, Greenwich), about the same as others (e.g., Shelton, Ridgefield, Wilton and Milford), and much lower than still others (e.g., Bridgeport, Stratford, Monroe and Trumbull).
   - **Public Services**: Which public services should we provide, at what levels, and at what cost? If we are forced to make tough choices, which services are the most and least important?
   - **Population**: Do we want to stay around 61,000 residents (plus about 10,000 college students), or get significantly larger or smaller? A larger population might result in a higher tax base, which might allow for an expansion of services and/or a lower per-household tax burden, but it could also adversely affect our quality of life.
   - **Commercial Development**: Are we willing to allow substantially more commercial and industrial development in order to relieve the tax burden on residential property owners, once again at the risk of adverse effects on our quality of life?
   - **Character**: Do we want to preserve what is left of our small-town character, or are we willing to consider the possibility of transforming at least part of our Town into a more urban area with multi-story, mixed-use buildings, and/or of allowing much greater residential density in areas where zoning currently prevents it?
   - **Demographics**: Do we want to change the age, income, or other characteristics of our population?
   - **Regionalization**: Do we want to merge some public services with any of our adjacent communities to gain mutually beneficial economies of scale?
   - **Governance**: Do we want to preserve our current form of government, which relies heavily on volunteers and only one elected full-time executive (the First Selectman) with broad powers, or do we want to consider alternatives that might better serve the needs of what is in fact a small city with a $300 million annual budget.

6. **A circular and iterative process**. Strategic planning is not a linear process in which we can start at the beginning and proceed straight to the end. It is instead a circular and iterative process that benefits enormously from a flexibility and willingness to go back and reconsider and revise earlier conclusions based on the knowledge and insights gained in later steps. Over time, good plans become better and better from backtracking and reconsidering earlier assumptions and choices. For example, a better understanding of the consequences of various strategic options, or simply an important change in environmental circumstances, may result in a need to circle back and change the goals and priorities that were initially adopted.

7. **Keep an open mind**. The planning process will work best if everyone is willing to consider all the relevant possibilities, even the ones that do not initially seem feasible. One expert on planning said it this way: "*Never test the legitimacy of the ends by the visibility of the means*." Another variation on this maxim is: "*Whether you think you can, or you think you can't, you're right*." Accordingly, we should be willing to challenge assumptions and conventional wisdom, particularly when they are presented as reasons why a proposed change should not even be considered.

8. **Conflicting opinions**. As noted earlier, it is inevitable that people, for many valid and legitimate reasons, will have very different ideas about what is best for our Town. Unlike most companies, for which there is widespread agreement that decisions should be made in the best interests of the shareowners, it is not even clear who in any town or city are the people for whose benefit that town or city exists.

   Some differences of opinion can be traced to narrow **self-interest**, like a real estate developer who advocates for higher residential density to create short-term business opportunities with no regard for the long-term consequences.

   Other differences of opinion reflect a lack of **agreed knowledge**, and these differences usually diminish during the planning process as everyone learns more about the facts and how they relate to one another. A great example of the benefits of agreed knowledge is the table at the end of Part 1, which provides 18 years of historical data for Fairfield. Just getting everyone to agree on the facts often brings their opinions much closer together.

   Differences based on **values** are much more difficult to resolve, extreme examples of which appear every day in the world news about the efforts of various political and religious groups to impose their beliefs on others. To resolve such differences in our constitutional representative democratic republic, we rely on open elections in which leaders are chosen by a majority based primarily on the values and priorities they espouse, and in which minority rights are protected by law. As we all know, this does not guarantee that everyone will always be happy.[2]

9. **Suggested rules of engagement**. Even though planning requires choices between competing values and interests, and even though it is therefore inherently political, this does not mean that it must necessarily be adversarial, contentious and divisive. Indeed, one of the great advantages of strategic planning is that it allows a consensus to be formed in a rational and systematic way. It is not necessary to resolve all differences, and no one is expected to abandon their beliefs and values. However, everyone should be willing at all times to challenge their own as well as others' views by the standard of what is in the best, long-term interests of the Town. Along the

[2] An interesting example of how majority rule can make some residents unhappy is Spring Valley, N.Y., where according to press reports, many members of one particular religious group moved into town, elected majorities of their members to all the town boards, and defunded public education while sending their own children to their own religious schools. Another interesting example is New London, where the city used its powers of eminent domain to transfer property from one private owner to another in order to further economic development, leading to the now famous Supreme Court decision, *Kelo v. City of New London*.

way, we should not underestimate the benefit to our community and its quality of life merely as a consequence of being willing and able to engage constructively with one another on where we think our Town should go and how we think it should get there.

10. **Data and judgment**. Data have increasingly become the gold standard by which we resolve differences of opinion. For example, Federal Reserve Board members have recently been saying that they are "data driven," as if they can presume the data they get are: (a) accurate (despite the fact that newspapers report almost daily that one economic series or another has been revised substantially up or down); and (b) not subject to a wide range of interpretations. Most data are inaccurate, unreliable and ambiguous. Only in retrospect – and the more time that has passed the better – does it seem that historical data are solid and unambiguous, and that the conclusions and outcomes with which they are associated were obvious and inevitable. One could not ask for a better example of this ambiguity than the debates over the meaning of standardized test scores in our schools. In the end, we must make judgments based on imperfect information.

11. **Correlation is not causation, and other logical fallacies**. A correlation between two variables does not necessarily mean that one causes the other. Close correlations, whether positive or negative, may or may not suggest causality,[3] and may or may not warrant additional careful research. A closely related fallacy is, "*post hoc, ergo propter hoc*," (after this, therefore because of this), and we have identified several others below that are worth keeping in mind in a town-wide debate.

A Glossary of Some Common Logical Fallacies

ad hominem: argument directed against a person rather than addressing the substance of an issue.
ad populum: argument based on an appeal to one or more common emotions (e.g., fear, greed, horror).
arguing from authority: argument based on the pronouncement of an authority rather than on the facts produced by the authority.
assertion: An unsupported premise or conclusion.
false analogy: argument by analogy when there are not sufficient similarities and/or there are serious dissimilarities.
hasty generalization: generalizing too broadly on the basis of the available evidence.
induction is not deduction: in a deductive argument, if the premises are true, the conclusion must be true; in an inductive argument, the premises are based on experience and thus the word "probable" is necessary because experience is never "all in" or infallible.
non sequitur: a conclusion or inference that does not follow from the premises or evidence upon which it is based.
poisoning the well: refutation of an argument by asserting that a person's self-interest is involved.
sentimental appeal: argument that a given statement is true or false by relying on the consensus of opinion.

[3] There is a great website dedicated to spurious correlations, one example of which is that there is an almost perfect correlation (99.26%) between the divorce rate in Maine and per capita consumption of margarine: http://www.tylervigen.com/spurious-correlations

Fairfield Historical Budget and Other Data

FY	BOE	% Inc.	Town	% Inc.	Debt Service	Retiree Benefits	Total Budget	% Inc.	Debt	Tax Levy	% Inc.	Grand List	Tax Base	Real Tax Rate	People	Pupils	BOE/ Pupil	CPI	Tax/ Capita	CT DPI/ Capita
	($ mil.)		($ mil.)		($ mil.)	($ mil.)	($ mil.)		($ mil.)	($ mil.)		($ bil.)	($ bil.)		(000)		($)		($000)	($)
1998-99	70.5	~	55.7	~	7.5	0.0	133.7	~	67.6	115.4	~	4.408	7.693	1.50%	57.000	7,597	9,280	163.9	2.025	30,793
1999-00	74.0	5.0%	56.7	1.8%	7.5	0.0	138.2	3.4%	78.4	117.9	2.2%	4.470	8.640	1.36%	57.340	7,787	9,503	168.3	2.056	31,965
2000-01	79.1	6.9%	58.7	3.5%	8.9	0.0	146.7	6.2%	101.7	124.1	5.3%	4.557	9.574	1.30%	57.403	8,042	9,836	174.0	2.162	34,115
2001-02	85.1	7.6%	61.3	4.4%	8.9	0.0	155.3	5.9%	190.9	132.5	6.8%	4.601	9.636	1.38%	57.771	8,284	10,273	176.7	2.294	35,727
2002-03	93.3	9.6%	64.1	4.6%	12.0	0.0	169.4	9.1%	185.7	144.7	9.2%	*7.215*	*11.032*	*1.31%*	58.030	8,480	11,002	180.9	2.494	36,839
2003-04	100.8	8.0%	63.0	-1.7%	15.7	0.0	179.5	6.0%	229.8	154.6	6.8%	7.183	13.463	1.15%	58.214	8,723	11,556	184.3	2.656	37,726
2004-05	110.4	9.5%	66.5	5.6%	17.0	0.0	193.9	8.0%	267.3	165.1	6.8%	7.265	14.762	1.12%	58.227	8,957	12,326	190.3	2.835	40,190
2005-06	118.5	7.3%	71.2	7.1%	17.7	0.0	207.4	7.0%	243.2	180.6	9.4%	7.345	15.811	1.14%	58.309	9,195	12,887	196.8	3.097	41,376
2006-07	125.3	5.7%	73.1	2.7%	20.1	0.0	218.5	5.4%	242.8	190.6	5.5%	*11.713*	*16.733*	*1.14%*	58.228	9,424	13,296	201.8	3.273	44,264
2007-08	131.4	4.9%	80.0	9.4%	20.1	2.6	229.6	5.1%	234.1	201.6	5.8%	11.839	16.913	1.19%	58.219	9,709	13,534	210.0	3.463	46,257
2008-09	139.6	6.2%	77.7	-2.9%	21.5	4.4	245.5	6.9%	228.8	218.1	8.2%	11.930	17.043	1.28%	58.689	9,880	14,129	210.2	3.716	47,568
2009-10	139.6	0.0%	74.8	-3.7%	23.7	6.2	247.2	0.7%	223.5	222.5	2.0%	11.985	17.121	1.30%	59.018	10,032	13,915	215.9	3.770	46,425
2010-11	141.6	1.4%	77.8	4.0%	23.8	8.3	251.5	1.7%	228.2	228.6	2.7%	12.057	17.224	1.33%	59.413	10,118	13,985	219.2	3.848	47,594
2011-12	145.7	2.9%	81.6	4.9%	24.9	10.9	263.1	4.6%	237.7	239.1	4.6%	*10.831*	*15.473*	*1.55%*	59.961	10,287	14,164	225.7	3.988	48,947
2012-13	148.9	2.2%	85.6	4.9%	25.9	11.9	272.3	3.5%	238.0	255.2	6.7%	10.920	15.600	1.64%	60.450	10,273	14,494	229.6	4.222	51,087
2013-14	151.2	1.5%	85.6	0.0%	26.6	15.1	278.5	2.3%	229.9	262.2	2.7%	10.957	15.653	1.68%	60.855	10,250	14,751	233.0	4.309	50,743
2014-15	155.7	3.0%	86.6	1.2%	25.9	16.8	285.0	2.3%	235.0	267.9	2.2%	10.981	15.687	1.71%	60.950	10,160	15,327	234.8	4.395	52,250
2015-16	161.2	3.5%	91.1	5.2%	24.8	14.1	291.2	2.2%	240.0	273.5	2.1%	11.032	15.760	1.74%	61.000	10,127	15,918	237.6E	4.484	53,000E
1999-2016																				
% Inc.	128.7%	~	63.6%	~	230.7%	nm	117.8%	~	255.0%	137.0%	~	150.3%	104.9%	~	7.0%	33.3%	71.5%	45.0%	121.5%	72.1%
CAGR	5.0%	~	2.9%	~	7.3%	nm	4.7%	~	7.7%	5.2%	~	5.5%	4.3%	~	0.4%	1.7%	3.2%	2.2%	4.8%	3.2%
2009-2016																				
% Inc.	15.5%	~	17.2%	~	15.3%	220.5%	18.6%	~	4.9%	25.4%	~	-7.5%	-7.5%	~	3.9%	2.5%	12.7%	13.0%	20.7%	11.4%
CAGR	2.1%	~	2.3%	~	2.1%	18.1%	2.5%	~	0.7%	3.3%	~	-1.2%	-1.2%	~	0.6%	0.2%	1.7%	1.8%	2.7%	1.6%

This table provides data on Fairfield's budget back to FY 99. Total spending over this 18-year period has more than doubled (up 118%) versus an increase in the Consumer Price Index of only 45%, so spending has increased 2.62x more than inflation (118/45). This spending growth was driven in the first ten years by 7.1% compound annual growth (CAG) in the BOE budget (driven in turn by 2.7% CAG in the number of pupils and 4.3% CAG in the cost per pupil, versus a CPI annual inflation rate of 2.5% over the same period), and 11% CAG in Debt Service, driven primarily by the need to build and expand schools. In the last seven years, the major budget driver has been Retiree Costs, which for the Town (not including the BOE) almost quadrupled from $4.4 million in FY 09 to $16.8 million in FY 15 before subsiding to $14.1 million in FY 16. Meanwhile, the annual Tax Levy has increased even more than spending (up 137%), as non-tax revenues rose from $18 million in FY 99 to a peak of $29 million in FY 05, and then declined to $17.7 million in FY 16. Thus, the Tax Levy has increased 3.0x more than inflation since FY 99 (137/45). Pupils as a percent of Population increased from 13.3% in FY 99 to a peak of 17.2% in FY 12, and has declined slightly to 16.6% in FY 16.

CPI data from Bureau of Labor Statistics, All Urban Consumers (CPI-U), 1982-84 = 100, for the month of December each year. NB: Numbers in the Grand List, Tax Base and Tax Rate columns in *Italics* are years in which revaluations took effect. CT DPI per capita is Connecticut Disposable Personal Income per capita from the BEA (Bureau of Economic Analysis, U.S. Department of Commerce). Population data from CT Department of Public Health modified by Census Bureau Intercensal Estimates of Resident Population for Incorporated Places. Debt figures are the total of current and non-current Bonds outstanding plus Bond Anticipation Notes at the end of each fiscal year per the CAFR.

A STRATEGIC PLAN FOR FAIRFIELD – PART 2

Where are we and how did we get here?

This is Part 2 in Fairfield Taxpayer's series on this subject, which we hope will contribute to the creation of an effective strategic plan that will allow Fairfield to continue to prosper by keeping our Town both desirable and affordable for all its residents. As you will see and as we readily acknowledge, we raise far more questions than we answer. Our primary objective at this early stage is to stimulate thinking and debate among as many of Fairfield's stakeholders as possible on where we should focus and what additional information and analysis would be most helpful. One place you can go to express your views is www.FairfieldStrategicPlan.com, a new website created by Fairfield Taxpayer.

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We begin Part 2 with a brief summary of our views on the "State of the Town," and ***we encourage everyone to read the views expressed earlier this year on the same subject by First Selectman Tetreau[4] and RTM member (and now First Selectman candidate) Chris Tymniak.[5]*** Our views are offered, as we hope many others will be, not as definitive, but as constructive contributions to a much broader discussion that engages as many Fairfield stakeholders as possible.

A Great Town with Some Serious Challenges

Fairfield Taxpayer (FT) believes that Fairfield is a great town that faces some serious challenges. Our Town is great for many reasons, including its physical beauty and New England charm, its beaches and other recreational facilities, its diverse and vibrant cultural life, its strong civic, religious and community organizations, two thriving universities, its AAA credit rating, good schools and other public services, and its proximity to both New York City and Boston.

However, Fairfield also faces some daunting challenges that will make it much more difficult to continue to prosper, including: **much less favorable general economic conditions** than prevailed during the happy days when our tax base was growing strongly and could absorb at least some of the substantial increases in spending and taxes; **structural barriers** that prevent us from controlling the major driver of higher spending and taxes, which is the relentless growth in the cost of public labor; **high property and state taxes** that are hurting property values by driving more and more residents to leave, particularly seniors and others who do not have children in our schools; and **infrastructure** problems that seem to be beyond the State's ability to fix, including deteriorating Metro-North train service and chronic traffic congestion on I-95, the Merritt Parkway and in Fairfield itself.

After 18 years of increases in our total spending and taxes at 2.5x-3.0x the rate of inflation without comparable growth in our tax base, higher taxes have made Fairfield increasingly unaffordable for many of its residents, which, on top of excessive spending and taxing at the state level, is driving more

[4] http://www.fairfieldct.org/content/10726/15800/17966.aspx
[5] http://www.fairfieldcitizenonline.com/opinion/article/State-of-the-Town-as-seen-by-GOP-Best-days-lie-6062170.php

and more residents to leave and hurting our property values, particularly at the higher end of the housing market where prices remain under severe pressure. One need only drive around and count the many aging "For Sale" signs in Greenfield Hill, the Beach area and Southport to realize that many residents and potential buyers feel that Fairfield is not where they prefer to live. Unless we can reverse this housing deflation, it is only a matter of time before it spreads as the tax burden that higher-end homes once carried is shifted onto other residents and the ranks of unhappy homeowners grow.[6]

Because labor costs are 70%-80% of our total spending, the only way to get our spending and taxes under control is to restrain the growth in the cost of wages, benefits and restrictive work rules for public employees. However, over the last 12 months, Town bodies have approved yet another series of labor contracts for teachers, school administrators, department heads, police and fire that for the next several years will continue to drive 3%-4% annual increases in labor costs – increases that are much greater than either the rate of inflation or the growth in the incomes of the people who are expected to pay for them, otherwise known as taxpayers. We will discuss all of these challenges in this section.

SWOT Analysis

As noted in Part 1 of this series, a useful exercise in the first stage of strategic planning is to identify strengths, weaknesses, opportunities and threats, which we have attempted to do below. We look forward to much refinement to this list as others suggest additions and deletions, and as we all learn more about where we are and how we got here.

Strengths:

- **A relatively strong financial condition** thanks to generally strong fiscal oversight, including:
    - AAA credit rating;
    - almost fully funded pension plans for the Town, Police and Fire (if the Town can consistently earn 7.5% on its investments);
    - a "rainy day" fund that is now equivalent to about 8% of total annual spending;
    - long-term capital spending plans already in place for the Town and its schools; and
    - only limited dependence on state and federal funds.

- **A vibrant, heterogeneous community**.
- **Physical beauty**, including beautiful trees, architecture, waterfront, harbors and beaches.
- **Infrastructure** (roads, bridges, waste treatment, schools, emergency equipment) in reasonably good shape.
- **Great recreational programs and facilities**, including athletic fields, golf courses, tennis courts, beaches and marinas.
- **Good schools**.
- **Good municipal services**, including libraries, snow removal, public safety, etc.

[6] For more information, please see Fairfield Taxpayer's "Update on Fairfield's Property Revaluation": http://www.fairfieldtaxpayer.com/uploads/1/1/1/8/11185705/fairfield_revaluation_update_final_revised_8.12.15.pdf. Readers may also be interested in, "The Coming Great Compression in Residential Real Estate Values": http://patch.com/connecticut/fairfield/the-coming-great-compression-in-residential-real-estate

- **Decelerating tax increases** over the past few years, including a 1.6% increase in the current year that was roughly in line with the rate of inflation.
- **Tax rate much lower than some neighboring communities** like Bridgeport, Stratford, Monroe and Trumbull.
- A large population of ~61,000 people that provides significant **economies of scale** relative to smaller communities.
- **Two thriving universities** that provide educational and cultural resources.
- Numerous thriving **youth, social, service, religious and community organizations**, including Pequot Library and the Audubon Center.
- **A thriving central business district** with great restaurants and entertainment venues.
- **Proximity to New York City, Boston, and the rest of New England**, and hence to jobs, entertainment, major league sports teams, skiing, etc.
- Prestige as the **home of General Electric Corporation and Bigelow Tea**.

Weaknesses:

- **Continued upward pressure on spending** with **little or no growth in the tax base**, resulting in **relentless tax increases**.
- A demonstrated inability to address and manage the **relentless growth in public labor costs**.
- A property **tax rate much higher than some neighboring communities** like Westport, Darien, New Canaan and Greenwich where higher-end buyers can find homes they like in communities with equally good or better public services.
- **Located in a state with serious problems**: Connecticut continues to raise taxes, even though its taxes are already among the highest in the nation, due to a demonstrated inability to control spending, and it is consequently losing population and jobs (no job growth in 26 years), particularly high-income jobs like those which once filled the large commercial buildings in Stamford (e.g., UBS and RBS), and created buyers of homes in neighboring towns like Fairfield.
- **Seniors moving away** due to high taxes, high cost of living, and climate.
- **Government by volunteers**, which makes the Town very dependent on the quality of leadership provided by just one elected official, the First Selectman.
- **A high level of debt** at $240 million with annual debt service at 8%-9% of total spending, which is close to its policy maximum of 10%.
- An apparent **inability to manage public building projects** without significant delays and/or cost overruns.
- **An outmoded IT infrastructure**.
- **Unfunded liability for Other Post-Employment Benefits** (OPEB) of about $102 million (and substantially more unless the Town can consistently earn 7.5% on its investments).
- **Possible departure of the Town's largest taxpayer**, due to what G.E. has described as the State's anti-business policies.
- **Sharing a border with the troubled City of Bridgeport**.
- **A higher crime rate** than many surrounding towns at 2,210 per 100,000 people than towns like Darien (493.5), Easton (521.8), Greenwich (607), Monroe (798.5), New Canaan (665.1), Redding (676.7), Trumbull (1,520.8), Weston (406.4), Westport (1,219.3), and Wilton (516.4).[7]

[7] https://docs.google.com/spreadsheets/d/19h_jdKRGFOQLWz5XWZpBJPUcWMgcetFkrRC0hYEzcLk/edit?pli=1#gid=0

Opportunities:

- Potential for **commercial development** at sites like Metro Center and Exide, which could ease the tax burden on residential property owners, although the commercial market in Fairfield County remains very weak, and CT is widely viewed as anti-business.
- Potential to collaborate more with **Fairfield University** and **Sacred Heart University** to the mutual benefit of both town and gown.
- Potential for **regionalization** by merging certain public services with one or more adjacent towns like Easton to achieve mutually beneficial economies of scale.
- Potential to **transform Fairfield Center** (including vacant properties like the Community Theatre) with high-density, high-rise housing and public spaces designed to attract and retain retirees, taking advantage of local resources and amenities like restaurants, entertainment, healthcare and transportation.
- Potential to improve the **performance of our schools**.
- Potential to improve the **appearance of public spaces**, like the railroad embankments that run through the center of Town.
- Potential to manage better **public nuisances** like litter, blight and noise pollution.
- Potential to improve **flood control**.
- Potential to **privatize** more services that are currently provided by highly-paid public employees.

Threats:

- **Slow general economic growth** in the U.S., and particularly in Connecticut.
- **Chronic traffic and Metro-North problems** that are degrading our quality of life and undermining Fairfield's viability as a bedroom community for commuters to New York and Stamford.
- **CT's problems could get even worse** with billion-dollar annual deficits already predicted for the next biennium (2017-19) budgets and with massive unfunded liabilities (even assuming 8.0%-8.5% investment returns) for retirement benefits (the highest in the nation on a per-capita basis), which means future tax increases that will drive more jobs and people out of the state.
- The **highly mobile hedge fund industry**, which is very important to the prosperity of Fairfield County and thus to the State's tax revenues, could leave CT very quickly.
- **Deteriorating train service** on Metro-North and **deteriorating infrastructure** statewide that the State can't afford to fix because both its spending and debt are already so high.
- **Exposure to enormous costs** that will crowd out all other public services if annual investment returns on pension and OPEB funds are significantly below the optimistic 7.5% that has been assumed.
- More and more **unfunded mandates** imposed by State government, particularly on school costs.
- Risk of **inappropriate high-density housing** anywhere in Town because developers can ignore local zoning regulations by invoking "8-30g," a State law to encourage affordable housing.
- **Climate change**: more storms, more flooding, more erosion?
- **Lyme disease** and **West Nile virus**.

Drawing from this list, we elaborate below on what we feel are the most important issues that Fairfield's strategic plan should address, including some related key new economic realities.

The New General Economic Reality

Perhaps the most important new reality is that general economic conditions have changed for the worse with GDP, jobs and personal **incomes growing only slowly in the U.S., and even more slowly in Connecticut**. This is a big change from the way things were over the lifetimes of most American adults, upon which basis we have formed our collective understanding of how the world works. For 60 years after WW II, notwithstanding some cyclical ups and downs, things just kept getting better as the United States increasingly dominated the global economy and generated lots of good-paying jobs in the process. Virtually everyone enjoyed remarkable increases in income, and even greater increases in living standards and "material well-being" (thanks to the benefits of technology, free trade, and lower distribution costs). Even when incomes leveled off in the years before the Great Recession, **the benefits of technology, free trade and lower distribution costs continued to boost purchasing power, allowing standards of living to continue to rise**. And even after the Great Recession, historically low interest rates allowed homeowners to refinance their mortgages to maintain their discretionary income.

We now face great challenges as favorable economic tailwinds have become turbulent headwinds. In the six years since the official end of the Great Recession, economic growth has been slow, good jobs have been much harder to find (CT has still not recovered all of the 119,000 jobs that it lost in the Great Recession, and has generated **no job growth for 26 years**), and incomes are still under pressure. This pressure has been **particularly strong on seniors** who depend on interest income on their retirement savings and on pensions that are tied to COLAs that, in turn, are tied to the rate of inflation. Incomes for many Fairfield residents are still down significantly from where they were in 2008, and yet over this same period Fairfield's tax levy has risen **36%** (to $273.5 million in 2015-16 from $201.6 million in 2007-08). Since our tax base is down 7% over the same period (to $15.8 billion from $16.9 billion), **our "real" tax rate (tax levy / tax base) has risen 45% to 1.73% from 1.19%.**

Competing Successfully in the Long-Term Residential Community Business

Since Fairfield is no longer an agrarian community where most people spend their entire lives and pass their properties on to their children to do the same, we must now compete to attract and retain customers in what is essentially **the "Long-Term Residential Community" business, in which the average tenure of a resident is about 17 years**. The Town's ability to continue to succeed in this business depends on: (a) providing **good residential services** (e.g., public safety, roads, schools) and maintaining a **good residential culture** that make it a desirable place to live; and (b) providing these services at a price (a.k.a., taxes) that represents good value to existing and potential customers. In order to continue to prosper, Fairfield must be both desirable and affordable. It cannot be desirable if it's not affordable, and being affordable will not matter if it's not desirable; getting the balance right is crucial.

One of the biggest challenges in the Long-Term Residential Community business is **attracting residents who are willing to pay for services they do not use, particularly the cost of education. At $185 million, education represents over 63% of Fairfield's total spending, but only 30% of our households have children in our schools.** Consequently, the people most likely to leave are those who do not have children in our schools, and the people most likely to buy their homes are families with school-age children. This turnover, driven on the one hand by rising taxes, and on the other hand by a relatively large supply of affordable homes (with a median selling price of only $525,000) in a wonderful town with good schools, may explain why Fairfield has experienced continued growth in school enrollment at a time when many other Connecticut towns have seen their school enrollments shrink.

It is families with children in our schools who are most likely to agree with Mr. Tetreau[8] that Fairfield is "the best value in the State" and/or "the best value in Fairfield County," because the value of the benefits they receive substantially exceeds what they pay for them. By paying property and motor vehicle taxes on a median $525,000 Fairfield home of ~$10,000 before taxes and ~$8,000 after taxes, a family receives around $4,000[9] in municipal services (e.g., police, fire, roads, beaches, parks) plus, on average, $18,000 per student in educational services. The combined **annual net benefits** (i.e., the value of benefits minus the after-tax cost paid) are therefore $14,000 for a household with one student; $32,000 with two students; and $50,000 with three students. After 17 years (the average resident's tenure), assuming all children complete 13 years of public education, **cumulative net benefits** are **$166,000** (one student), **$400,000** (two students), and **$634,000** (three students). Net benefits are obviously greater for less expensive homes and *vice versa*.[10] Any realized net capital gain from the eventual sale of the home increases the net benefit, and *vice versa*. Living longer in Fairfield before or after the children complete 13 years of K-12 education reduces the net benefit by $4,000 per year.

Value of Net Benefits to a Fairfield Taxpayer with a $525,000 Home

	Number of Children in School			
	0	1	2	3
Annual Property and M.V. Taxes Paid	-$10,000	-$10,000	-$10,000	-$10,000
Less Value of Income Tax Deduction	$2,000	$2,000	$2,000	$2,000
After-Tax Cost of Taxes Paid	-$8,000	-$8,000	-$8,000	-$8,000
Annual Value of Municipal Services	$4,000	$4,000	$4,000	$4,000
Annual Value of Educational Services	$0	$18,000	$36,000	$54,000
Total Annual Value of Services per Year	$4,000	$22,000	$40,000	$58,000
Annual Value of Net Benefits per Year	-$4,000	$14,000	$32,000	$50,000
Cumulative Net Benefit Over 10 Years	-$40,000	$140,000	$320,000	$500,000
Cumulative Net Benefit Over 17 Years*	-$68,000	$166,000	$400,000	$634,000

*** Assuming each child completes 13 years of school at a total cost of $234,000.**

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[8] See: http://www.fairfieldct.org/content/10726/15800/17966.aspx, and also: http://fairfieldct.org/filestorage/10726/11032/12630/12632/17647/FS_Budget_Presentation.pdf

[9] Total spending of $291 million plus non-tax, non-fee revenue of ~$10 million, minus school spending of $185 million = ~$116 million, minus non-resident taxes of ~$35 million = ~$81 million/20,000 households = ~$4,000. If C&I taxpayers pay more than the cost of the actual services they receive (e.g., roads, police, fire), then the value of the benefits to the average Fairfield resident is higher than $4,000.

[10] Another interesting perspective on school spending is to imagine that all ~20,000 households had 1.67 students in our schools, the same ratio as the 30% of total households that do at present. That would mean 33,333 students instead of 10,000. At a cost per student of $18,000, we would have to spend $600 million on our schools instead of $185 million. Adding in the remaining $106 million cost of all other public services, our tax levy would have to increase to ~$700 million from $274 million, and with a required mill rate of ~63.85, the property and motor vehicle taxes on the median $525,000 home would increase 2.5x from ~$10,000 to ~$25,000.

Not surprisingly, many if not **most parents with children in our public schools do indeed think Fairfield is a great value, and do not share the concerns expressed by many other residents about the need to restrain spending and taxes**. Encouraged by well organized groups like the PTAs, who are in turn encouraged by school administrators and teachers, these parents get out and vote and are also highly vocal at public meetings in support of spending on education, with recurring slogans like, "*the children are our future*," and "*great schools support property values*." The *Fairfield Citizen* described the scene at the 2014 budget meeting as follows: "The pro-education budget rally, organized by the PTA Council, drew about 60 people, many wearing tee shirts urging 'no cuts' and carrying placards urging support for the full school budget."[11] Since there is no organization with comparable resources to the PTAs and Teachers Union urging the other 70% of Fairfield households to speak out and vote, **it is easy for the 30% to become a majority in municipal elections for which on average less than 50% of registered voters turn out to vote,** and sometimes less than 30% (2009 and 2013).

However, even parents who are benefitting most from the system must eventually acknowledge the new economic reality we face and restrain the growth in our spending and taxes, ***because otherwise it is only a matter of time before everything we love about Fairfield will be at risk, including our schools***. It is simply not possible to restrain our overall spending without restraining the cost of our schools, which as noted above represent over 63% of our total spending. And, since labor costs represent 80% of the BOE budget, we simply cannot restrain the cost of our school system if we continue to grant generous increases in compensation to teachers and school administrators.

The Critical Need to Control Labor Costs

Labor costs represent at least 70% of total town spending, and perhaps as much as 80%.[12] Thus, **we cannot restrain our total spending unless we restrain labor costs.**

During America's extraordinary period of rising affluence, we unfortunately developed some bad habits that will not serve us well in the new economic reality we face. For example, **as long as the rising tide of general prosperity was lifting all boats (and all home values), it didn't seem to matter that we granted more and more generous compensation packages to public employees**, and it didn't seem to matter that the Town bodies responsible for approving these contracts did so without considering their longer-term consequences. As long as things kept getting better, neither the politicians nor the voters who elected them were forced to accept responsibility for the long-term consequences of their actions (or inactions). And when things did get bad enough in some towns, cities, regions and states, **people simply began to "vote with their feet"** by moving somewhere else, which is exactly what more and more people in Connecticut are doing.[13]

As noted earlier, Fairfield's spending and taxes have increased at 2.5x-3.0x the rate of inflation over the past 18 years NOT because we added proportionately more and/or better public services, but primarily because the cost of public labor escalated sharply due to increasingly generous wages, benefits and

[11] http://www.fairfieldcitizenonline.com/news/article/500K-cut-from-school-spending-in-marathon-RTM-5456108.php#photo-6264573

[12] Including: professional fees and services; "Contingency," which includes retroactive wage increases; 70% of the annual contribution to the Surplus; the Supplemental Risk Management contributions to cover labor-related costs; and the labor portion of paving costs, then labor is probably 80% of total spending.

[13] http://www.courant.com/data-desk/hc-connecticut-population-down-as-people-move-out-20150122-htmlstory.html

work rules, as throughout the State **strong, well-organized public employee unions dominated at the bargaining tables against weak, short-sighted, politically motivated government negotiators who were supposed to be representing the taxpayers**. And the same unions were equally successful as lobbyists at enacting legislative protections like binding arbitration, prevailing wages (a rule that substantially increases the cost of public construction projects), and constitutional pension protections.

It should also be noted that the unions are not merely good at the bargaining table and in the State capitol, they also understand **the power of political intimidation**. The standing-room-only crowds that have been showing up at Fairfield's Representative Town Meeting (RTM) when contracts are being considered, and who are cheering and applauding when the RTM votes to approve them, are not a representative sample of the general public. Instead, they are largely direct beneficiaries of the contracts and budgets being approved, many of whom (70% in the case of police and fire) don't live or pay taxes in Fairfield. The *Fairfield Citizen* described the meeting room as "packed" with teachers on November 24, 2014,[14] and "packed" with firefighters and police officers on July 27, 2015,[15] when their new contracts were approved.

No matter how much we love and respect our teachers, administrators, department heads, firefighters, policemen and other Town employees, continued high increases in their compensation at the state and local level are simply not sustainable. According to the Bureau of Labor Statistics,[16] as of June 2015, total compensation for state and local government workers was 41% higher ($44.22 per hour) than for workers in private industry ($31.38), with wages and salaries 29% higher and benefit costs 67% higher. Note that these figures do not take into account any of the work rule restrictions that further raise the cost of public-sector labor by limiting productivity. **Public employees should be compensated in line with comparable private-sector employees rather than at a substantial premium**, including overly generous pension and healthcare plans that are not available in the private sector to the people who must pay for them.

FT believes strongly that ***the relentless increase in the cost of wages, benefits and restrictive work rules for public employees is the single most important challenge to the future prosperity of both our Town and our State.*** That neither the Town nor the State has been able to even acknowledge the problem of excessive public employee compensation, let alone address it, is ultimately attributable to two factors: first, the widespread **short-termism** on the part of both politicians and the voters, none of whom is forced to accept responsibility for the long-term consequences of their actions (or inactions) and are happy instead to move elsewhere if circumstances change for the worse in their neighborhood, town, region or state; and second, the **widespread complacency** created over many years of post-war prosperity, when it just didn't seem to matter what public employees were paid because everyone's "material well-being" along with home values just kept rising.

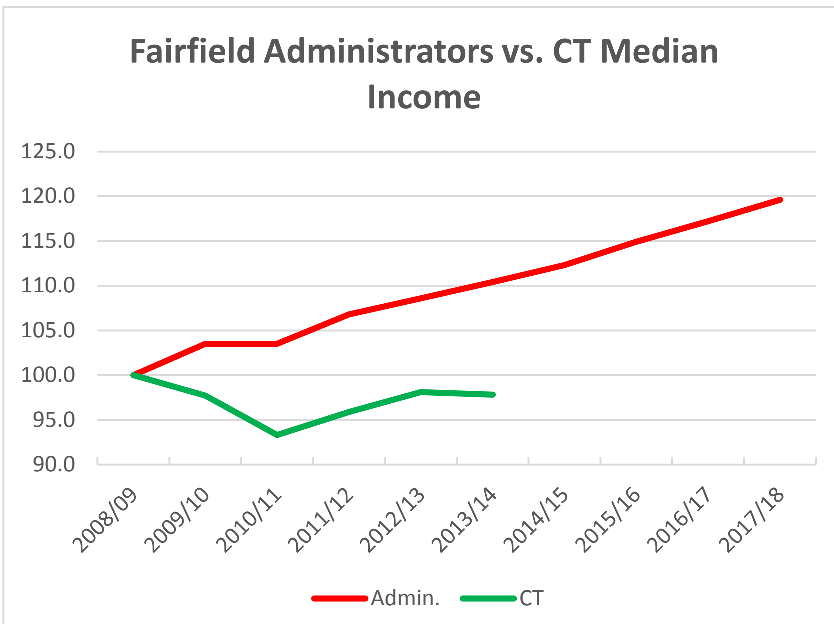
Here is a summary of what has been going on with Fairfield's recent labor contracts, as a result of which ***public employees will in general get annual increases in salary and healthcare benefits of 3%-4% over***

[14] http://www.fairfieldcitizenonline.com/news/article/Teacher-Town-Hall-worker-contracts-OK-d-by-RTM-5917643.php
[15] http://www.fairfieldcitizenonline.com/news/article/Amid-bickering-and-abstentions-RTM-OKs-police-6409330.php
[16] http://www.bls.gov/news.release/ecec.nr0.htm

the next three years that will put them about 20% above where they were in 2008 while the incomes of many of the taxpayers who must pay for those increases are still below where they were in 2008.

Teachers: On November 24, 2014, the RTM approved by a vote of 37-7 a generous three-year contract for Fairfield's teachers in the mistaken belief that it would increase the combined cost of salaries and healthcare benefits by only 1.7% per year (**instead of what was actually 3.6% per year**), and that the BOE budget this year would increase less than 2% (**instead of what was actually 3.5%** by the time it was finally approved). With only a few exceptions, RTM members were content to repeat platitudes about the importance of education to our children and our property values, and to simply move on and forget that they were misled into approving a contract that was not in the best long-term interests of the Town. Meanwhile, the people responsible for misleading the RTM managed to avoid even having to acknowledge their culpability, let alone being held accountable.[17]

School Administrators: On December 15, 2014, Fairfield's RTM narrowly rejected a proposed three-year labor pact for Fairfield Public School's (FPS) administrators by a vote of 21-20. After the union prevailed in the ensuing mandatory arbitration process (in which the people representing the taxpayers decided to focus solely on healthcare benefits rather than total compensation), exactly the same contract came back to the RTM on March 19, 2015, and was approved by a vote of 23-7.



To put this contract in context, **School Administrators were already receiving average salaries of $150,000** per year (some of them well over $200,000). The Superintendent of Schools (who is not a member of this union) is paid even more, at **$289,000**. In contrast, Fairfield's First Selectman is paid ~$131,500, the Director of Public Works ~$135,000, Fairfield's Chief Fiscal Officer ~$137,000, the Chief of Police ~$144,000 and the Fire Chief ~$149,000. By the way, the median salary for general-practice physicians in Fairfield is ~$205,000.[18] Under the new contract, Administrators' **salaries** will increase **another 6.5%** over the next three years to an average of **$159,423**, for a total gain of **20%** from 2008/09 to 2017/18. Including benefit costs – social security, Medicare, pensions, disability (60% of salary with no limit) and life insurance (2.5x salary), healthcare insurance (**$12,564** for a single

[17] http://www.fairfieldtaxpayer.com/uploads/1/1/1/8/11185705/town_budget_approved_--_why_we_should_worry--_final.pdf

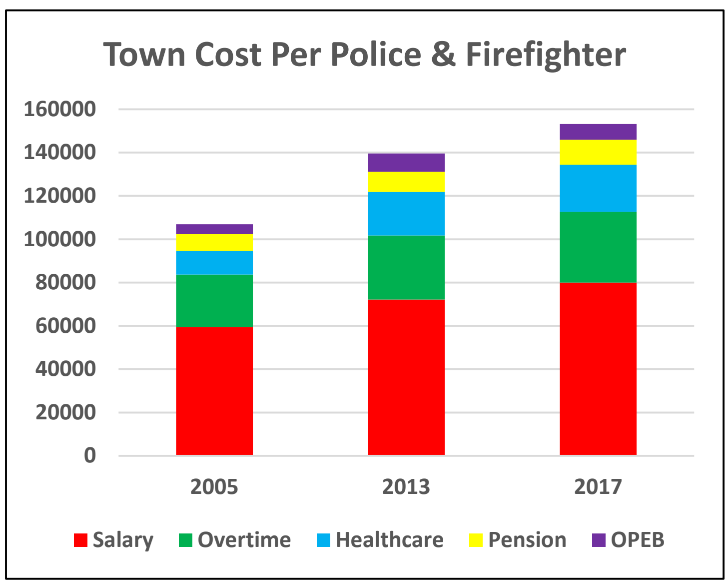
[18] http://www1.salary.com/CT/Fairfield/Physician-Generalist-salary.html

employee, **$26,933** for a married employee, and **$34,859** for a family as of 7/1/2018)[19] – the "total compensation" numbers are approximately 25% higher.[20] Thus, including benefits, the lowest paid administrator is supposed to make **~$150,000** and the highest ~**$230,000**. Including benefits, the Superintendent is well over $300,000.

In addition, the contract specifies **a 225-day work year**, and grants, **with full pay**, **23** days (4½ weeks) of vacation (five of which can be taken during the student year, and five of which can be carried over to the next year), **15** sick days (which can be accumulated up to 150 days), **5** personal days for a death in the family, plus **5** personal days for any other acceptable reason (including the observance of major religious holidays), including one private day with no restrictions. Three additional days are allowed at reduced pay (i.e., the difference between regular pay and the cost of a substitute). **Not including bereavement leave, administrators are entitled to 43 days off (or 8½ weeks) with full pay.**

Department Heads: On May 4, 2015, with no acknowledgement that there is any problem whatsoever with continued unsustainable increases in public employee compensation, the Board of Selectmen **unanimously granted average salary increases of 2%-3% to most Department Heads** and granted 2.5% annual increases in each of the next four years (i.e., 10.4% overall) to themselves (or whoever the selectmen will be after the November election). Moreover, they did so without even considering what these increases would mean for the increase in total compensation, simply because the First Selectman asserted that under the Town Charter, the BOS can review and approve salaries, but not benefits. However, what Article V, section 5.2 of the Charter actually states is this: "*Except as provided in this Charter or otherwise by law, the compensation of all Town officers shall be fixed by the Board of Selectmen subject to the adoption of the Town budget as provided in Article XII of this Charter*." Note that this clause uses the word **"*compensation*"** rather than "*salaries*."

Police and Fire: On July 27, 2015, the RTM approved by a vote of 31-0-7 new contracts for Police and Fire. Having been earlier misled into believing that the annual cost of the new teachers' contract would be only **1.7%** (instead of an actual **3.6%** per year),[21] our RTM representatives still did not bother to challenge the assertion that with 2.5% annual increases in salaries and with an 8% trendline in healthcare costs, the increases in the total cost of the new police and fire contracts would be only **2.05%** and **2.09%** (later revised up to **2.24%** and **2.30%**), respectively. In fact,



[19] Note that the thresholds for the so-called "Cadillac Tax" (a 40% excise tax) under the Affordable Care Act, scheduled to take effect on January 1, 2018, are **$10,200** for an individual and **$27,500** for family coverage.

[20] http://archive.fairfieldschools.org/downloads/budget/2014-2015BOEBdgtBook2-10-14ReducedBookmarkedLinkedforweb.pdf

[21] http://www.fairfieldtaxpayer.com/uploads/1/1/1/8/11185705/town_budget_approved_--_why_we_should_worry--_final.pdf

these cost-increase numbers were understated primarily by a fortuitous drop in the cost of healthcare and OPEB (Other Post-Retirement Benefits) over the past two years (which are also the first two years of this long overdue contract), both of which could easily reverse over the next two years. Excluding these non-recurring windfalls, the increase in the annual cost to the Town is actually **3.35%**, right in line with the recent **3.2%-3.6%** increases for teachers, school administrators and department heads. Meanwhile, the Town remains completely at risk for the future cost of generous retirement benefits that, for example, allow retirement either at age 51 or 25 years after date of hire, with a pension equivalent to 70%-80% of ending salary, with up to a 3% annual cost-of-living increase, and with full healthcare benefits. With life expectancies continuing to rise, this means **the Town could easily be paying firefighters and police officers for more years in their retirement than they served on active duty.**

Huge Liabilities for Pensions and OPEB (Other Post-Employment Benefits)

Notwithstanding the fact that every rational private-sector and nonprofit company has already replaced their defined-benefit retirement plans with defined-contribution plans, the debate on this subject at the RTM continues to focus narrowly on the short-term cost of having to pay Social Security on both salary and overtime, ***and to ignore the potentially massive cost to the Town if investment returns are significantly below the assumed rate of 7.5%.***

According to the Town's *Comprehensive Annual Financial Report* (CAFR),[22] even though our pension plans are almost fully funded (99%), ***every one-percentage-point in lower investment return would increase our net liability by a staggering $46 million***. A presentation by the Town's actuarial firm (Hooker & Holcombe, or "H&H") to the Board of Finance (dated 2/25/15 and 3/3/15)[23] indicates that as of 6/30/14, **just a 1.5 percentage-point decline (from 7.5% to 6.0%) would increase our annual pension cost** by **$10.8 million** (or 3.7% of our total budget of $291 million). Anyone familiar with the stock market knows that the risk about which we should all be concerned is not a minor one- or two-percentage-point shortfall, but a 20-percentage-point drop (a.k.a., a Bear Market) followed by zero returns for an extended period.

Meanwhile, as of 6/30/14, the Town (including Police and Fire) also had a ***$102 million*** unfunded liability for Other Post-Employment Benefits (OPEB), which is primarily healthcare insurance for retirees. Although Fairfield, unlike many Connecticut towns, deserves full credit for having any long-term OPEB funding in place (and for funding its annual required contribution for both Pensions and OPEB), our total OPEB liability is only 17% funded. There is no "sensitivity analysis" in the CAFR or the H&H report that tells us what happens to our net OPEB liability with every one-percentage in lower investment returns, but the actuarial accrued OPEB liability is around **$123 million**, which is about one-third of the pension liability of **$356 million**, and both numbers are based on an assumed 7.5% annual return. So an educated guess would be that ***a relatively small 1.5-percentage-point decline*** in the rate-of-return assumption would increase the Town's combined annual cost by **$14.5 million**, or **5%** of our total spending. If this happens, and it could just as easily be a 10% increase, we will be forced to cut spending (not just any increase in spending) on all other public services.

[22] http://www.fairfieldct.org/filestorage/10726/11032/12630/15712/2013-2014_Annual_Financial_Report.pdf – See page 63.

[23] http://www.fairfieldct.org/filestorage/10726/11032/12630/12632/27689/27700/PENSION_-_H%26H_Actualrial_Valuation_2.25.2015.pdf

As noted earlier in the discussion of labor costs, during America's extraordinary period of rising affluence we unfortunately developed some bad habits that will not serve us well in a more challenging economic environment. One of those bad habits is the widespread belief and expectation that the strong investment returns during that period were "normal" and will continue. Accordingly, we have created post-retirement benefit systems that do not put aside enough money to cover their future cost because we think a very substantial portion of that money will ***magically and painlessly*** come from high investment returns on the money we do set aside.

To appreciate the magnitude of our dependence on strong investment returns, consider the simple fact that if you would like to work for only half the adult years (say, 30 out of 60) that you (and/or your surviving beneficiary) would like to enjoy the same standard of living, and if you assume a zero return on the money you save and no help from any other source (like Social Security), ***you would have to save half of your income***. [24] Now consider that Fairfield's firefighters and police officers contribute only 4.75% (just increased from 4.5%) of their salary to their pensions, and that the Town will contribute another 22.24% this year (in line with a five-year average of 22.5%), for a total of 27.0%. Yes, there are many details we are ignoring in this simplistic analysis, but ***the difference between 27% and 50% provides some idea of the huge gap that we are relying on investment returns painlessly to fill***.

It is critically important for everyone to understand that the Town (i.e., the Taxpayer) bears all of the risk if the cost of post-retirement benefits turns out to be greater than expected, whether because investment returns are below 7.5% annually, because beneficiaries on average live longer than expected, because we are amortizing unfunded liabilities over more years than the average remaining years of employment, and/or because inflation in healthcare costs is higher than has been assumed.

Governance

Fairfield's government is run almost entirely by well-meaning volunteers who often don't have the time or expertise to understand the full consequences of the important decisions they are making, who often base their decisions on flawed analyses and simplistic platitudes, and whose only accountability is that they may not get reelected to a time-consuming position that pays them nothing. Among other things, **these amateurs are no match for the professionals who represent the public employee unions**, particularly on the uneven playing field created by pro-union state laws like binding arbitration. The new Police and Fire contracts provide yet another example of the RTM rushing to judgment and failing to take the time to understand the numbers and their long-term consequences for the Town.

Another example of the weakness of our current governance system is the growing number of **significant cost overruns and delays** (e.g., Riverfield, Osborn Hill, Fairfield Ludlowe High School, Penfield Pavilion) on public building projects, responsibility for which has traditionally been delegated by the First Selectman to *ad hoc* building committees.

Accordingly, it is important for everyone to understand that the Town's future rests importantly on the quality of leadership we get from the one full-time elected official with broad powers, our First Selectman.

[24] For a comprehensive analysis of retirement plan economics, please see this recent article in the *Financial Analysts Journal*: http://www.cfapubs.org/doi/pdf/10.2469/faj.v69.n6.4

We should all reconsider whether our current form of government is appropriate for a small city with a $300 million budget facing many serious challenges.

Summary and Conclusions

In summary, in answer to the questions, "***Where are we and how did we get here?***" Fairfield Taxpayer believes that Fairfield is a great town with some serious strategic challenges, the most important of which are the following:

1. Because general economic conditions have changed for the worse at the national and state levels, it appears likely that **only well managed towns will continue to prosper**.

2. Because our total spending and taxes have increased at 2.5x-3.0x the rate of inflation over the last 18 years without comparable growth in our tax base, **higher taxes have made Fairfield increasingly unaffordable for many of its residents**, which, on top of excessive spending and taxing at the state level, is **driving more and more residents to leave** and hurting our property values, particularly at the higher end of the housing market where prices remain under severe pressure.

3. Because public labor costs continue to rise 3%-4% annually and because we have limited contractual flexibility to raise productivity (e.g., minimum manning on firetrucks and maximum teacher loads), **the Town's spending will most likely continue to rise faster than both inflation and taxpayer incomes.**

4. Because there is not much we can do in the short term to increase our tax <u>base</u> and because our tax <u>rate</u> is already too high, **Fairfield will soon have to make difficult choices about which public services or service levels should be cut,** including our school spending, which represents over 63% of total spending.

5. Because we remain very exposed to the massive costs associated with retirement benefits for public employees, **if the Town does not earn consistent 7.5% returns on its pension and OPEB funds**, we will be forced to slash public services, including school spending.

6. Because we rely almost entirely on volunteer amateurs to run our government, **the Town's future rests importantly on the quality of leadership we get from the only full-time elected official with broad powers, our First Selectman.**

7. Because the Town's future rests importantly on what happens in the State of Connecticut, **we are exposed to the huge fiscal problems and continued mismanagement in Hartford.**

A STRATEGIC PLAN FOR FAIRFIELD – PART 3

Where should we go and how should we get there?

This is Part 3 in Fairfield Taxpayer's series on this subject, which we hope will contribute to the creation of an effective strategic plan that will allow Fairfield to continue to prosper by keeping our Town both desirable and affordable for all its residents. As you will see and as we readily acknowledge, we raise far more questions than we answer. Our primary objective at this early stage is to stimulate thinking and debate among as many of Fairfield's stakeholders as possible on where we should focus and what additional information and analysis would be most helpful. One place you can go to express your views is www.FairfieldStrategicPlan.com, a new website created by Fairfield Taxpayer.

Part 1 addressed "***What is a Strategic Plan?***" and why we agree that having one would be good for our Town, and Part 2 addressed the foundational questions: "***Where are we and how did we get here***?" In Part 3, we move on to the ultimate questions: "***Where should we go and how should we get there?***" Finally, Part 4 will recommend some "***Next Steps***."

We will focus in Part 3 on some key goals we could establish, and consider why they might be in the best long-term interests of the Town. As noted earlier, strategic planning works best as an iterative process, and this section, Part 3, is subject to even more revision than Parts 1 and 2. We particularly hope our public and private educational institutions will encourage their faculties and students to become engaged in the consideration of Fairfield's strategic plan.

So, where should we go and how should we get there?

A Common Framework

One common framework for answering these ultimate questions is as follows:

1. Core **values** and **beliefs**
2. **Mission** (and sometimes also, or alternatively, Vision and Purpose)
3. Strengths, weaknesses, opportunities and threats ("**SWOT**")
4. Major **strategic alternatives**
5. **Goals and priorities**
6. Key performance indicators (**"KPI's"**)
7. **Strategies** to achieve goals
8. **Objectives** to implement strategies
9. **Action plans** to achieve objectives
10. **Key assumptions** and **success factors**

One way to think about many of these planning terms is by their timeframe: some are **long-term** (e.g., values, beliefs, mission, vision, purpose); some are **intermediate-term** (goals, priorities, strategies); and some are **short-term** (e.g., objectives, specific action plans). The remaining terms are tools for analysis and measurement (SWOT, major alternatives, KPIs, key assumptions and success factors).

Core Values and Beliefs

Most strategic planning efforts begin by defining core values and beliefs as a foundation for agreement on a mission statement. Although this step may not be necessary for Fairfield if everyone agrees that our mission should be simply, **"To Continue to Prosper,"** core values and beliefs can also be helpful in resolving conflicts between opposing interests when it is necessary to make tough policy choices. Accordingly, we propose the following tentative list to get the conversation going, with the understanding that ***each of the core values and beliefs we eventually adopt will require a clear definition with which everyone is comfortable***.

1. Rationality
2. Rule of Law
3. Fairness
4. Majority Rule
5. Minority Rights
6. Property Rights
7. Environmental Conservation and Sustainability
8. Civility and Tolerance
9. Public Safety and Public Education
10. Pluralism

Once again, as with everything else in this paper, all of these are subject to refinement over time as more and more stakeholders weigh in. It will be useful to remember that we should include on this list only core values and beliefs that are relevant to creating a strategic plan for Fairfield. For example, core values and beliefs specific to one religion or one political ideology are not appropriate.

Key Performance Indicators (KPIs)

Even our very simple mission statement, **"To Continue to Prosper,"** leaves open the important question of what it means "to prosper."

We believe the meaning of the words "to prosper" for a town like Fairfield should be based on its ability to produce positive results in some combination of the following key performance indicators.

1. Strong relative **residential** property values.
2. Strong relative **commercial** property values.
3. Strong **school** performance.
4. Low relative **crime** rate.
5. High ratings on an annual town-wide **survey** of residents' satisfaction with **public services**, **public facilities**, **public health and safety**, and **Town ambiance**.
6. A strong and stable **financial condition** including a high credit rating.
7. Higher relative population **stability** through lower relative population **turnover**.
8. High relative **participation** rates in elections, youth programs, civic and community organizations.
9. High relative **environmental** protection and sustainability.
10. Sound **infrastructure**, such as roads, bridges, municipal and emergency equipment, wastewater treatment, etc.

Once again, this tentative list is subject to substantial revision as the planning process advances. Even if it were accepted as is, there is much work to be done to decide **how we want to measure each KPI**. For example, the BOE recently approved a new District Improvement Plan (DIP),[25] which established 22 different Student Performance Indicators (SPI) that result in 229 different data points (because several of the indicators will be measured for every grade from K-12 to which they apply and in some cases for different cohorts within a given grade). And beyond the choice of KPIs there is the need to decide how to weight and prioritize them.

Proposed Strategic Goals to Help Fairfield "Continue to Prosper."

Subject to further refinements in our mission statement and in the KPIs by which we decide to measure our success, we have proposed below five strategic goals that we believe would help the Town continue to prosper. For each of the goals, we suggest some specific objectives and action plans in support of each.

Proposed Major Strategic Goal #1

CONTROL SPENDING AND RISKS

In order to continue to prosper, FT believes that Fairfield's most important strategic goal should be to **control our spending and risks**. Some specific actions that would help us to achieve this goal are as follows:

- We should decide **what rate of growth in spending and taxes is acceptable to us**, and perhaps adopt some benchmark(s) for that rate of growth, like the rate of inflation or the growth in taxpayer incomes, and perhaps amend the Town Charter to require a referendum to approve any increase that is greater than the limit we adopt.

    - FT proposes that unless and until we have a strategic plan that concludes otherwise, **tax-rate increases should not exceed the rate of inflation**, and because it is already too high, our tax rate should be reduced if we can find ways to do so through increased productivity or other savings.

- Since labor is 70%-80% of our total spending, we should **restrict future growth in public employee compensation to the same rate of growth we are willing to allow in total spending**.

    - Continued high increases in public employee compensation are not in the public interest because ***they will eventually destroy the ability of towns like Fairfield to support their public services including their schools***.
    - FT proposes that ***all public employees and unions should work with the Town*** to restrict any future increases in total compensation to the rate of inflation.
    - Since healthcare costs are about 20% of total compensation and are projected to grow 8% annually, this means that ***if inflation is 1.6%, ceteris paribus, there is no room for***

[25] http://cdn.fairfieldschools.org/district-information/district-improvement/DIP_Complete_Approved_July_2015.pdf

any salary increases unless we can increase the productivity of our public workers and reduce headcounts.

- We should decide which public services are most and least important to us and we should determine what each of them costs so that if necessary we can make thoughtful choices when there is a need to cut services or service levels.

    - In order to do this, ***we need a cost breakdown for both Town and School System services by program and by user or student.***

- We should consider ways in which we can ***attract and retain more residents who do not have children in our public school, particularly seniors***.

    - We should analyze our Senior Tax Relief program to see if it is cost effective, and if not, consider how these resources could be better used to retain seniors.
    - We should consider what additional, cost-effective services the Town could provide for seniors, such as member-driven programs and services that help seniors continue to live safely, independently and comfortably in their neighborhoods and homes, and thus to "age in place."

- We should look for ways to reduce costs and increase productivity in every public service, including our schools.

    - We believe that there are many opportunities for both reducing costs and increasing productivity, including **upgrading our IT systems and resources**.
    - We should **benchmark** all of our current public services against those of other towns in terms of service levels and costs.
    - We should consider **outsourcing** school and public services to private contractors. We do this now to some extent, but there may be other opportunities.
    - We should consider **merging some services** with a town like Easton.
    - We should require **every department to develop a strategic plan** that addresses any relevant key performance indicators that were adopted as part of the Town's strategic plan.
    - We should require all departments to provide **annual business plans** (not merely budgets) establishing specific objectives each year that are consistent with their strategic plans.
    - We should have formal **annual performance reviews** of every department head based on the objectives that were agreed at the beginning of the year as part of their annual plans.
    - A significant portion of every department head's compensation (including the Superintendent of Schools) should be **performance based**.
    - The First Selectman should be required to provide **a formal annual report each year** (not merely a subjective State of the Town address), that describes the Town's performance based on the KPIs that were adopted as part of the Town's strategic plan.

- We should do all we can to reduce the Town's exposure to the risk that it could be overwhelmed by the cost of the post-retirement benefits it has promised to its employees, both pensions and healthcare.

    - We should **eliminate defined-benefit pension plans** as an option for all new Town employees, including police and fire.
    - We should **negotiate less generous post-retirement healthcare benefits** and demand that employees assume responsibility for more of these costs.
    - We should try to **privatize the huge liability associated with the pensions** for current retirees and employees.

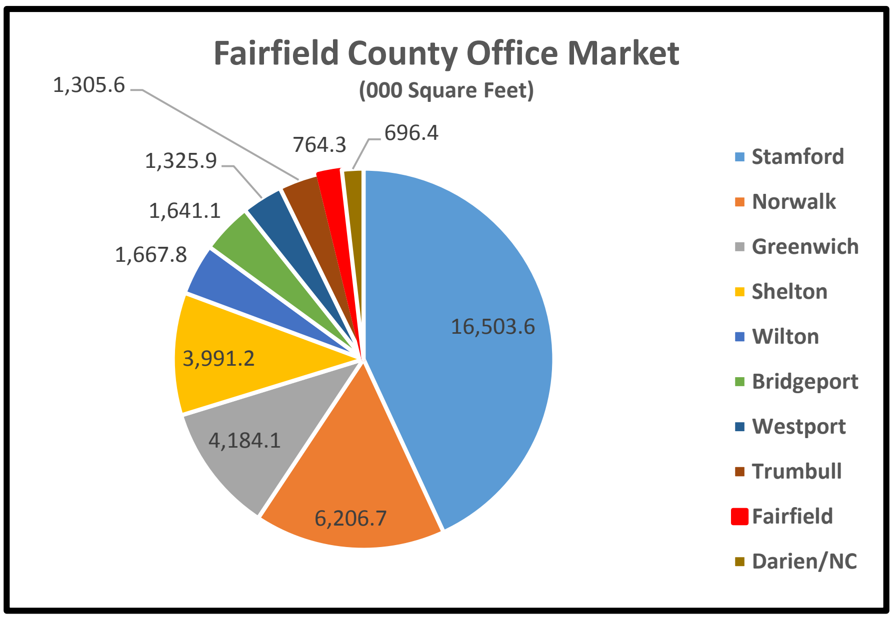
- We should do all that we can to protect the Town from the risk of **inappropriate high-density development** under 8-30g. [26]

Proposed Major Strategic Goal #2

FIND NEW SOURCES OF REVENUES

Our second major strategic goal should be to consider ways in which we can **generate substantially higher non-residential tax revenues**.

- The most obvious example is commercial property development. For example, according to Cushman & Wakefield (C&W), **Fairfield has only 2% of the office space in Fairfield County**.



- However, adding commercial space would not be easy. According to C&W's "Office Snapshot" for Q2 2015, the overall vacancy rate for Fairfield County office space is still above 20%, gross

[26]For more information, see Fairfield Taxpayer's "Primer on High-Density Housing: http://www.fairfieldtaxpayer.com/uploads/1/1/1/8/11185705/fairfield_taxpayer_primer_on_hd_housing_final.pdf

rental rates are declining, and there is currently no office space whatsoever under construction.[27]

- We should consider imposing or raising user fees for discretionary services.
    - For example, our public libraries continue to measure their success solely by how many people use their services and programs, and a significant (and perhaps growing) number of those users are not residents of Fairfield.
    - In contrast, our Parks & Recreation Department covers the cost of many of the programs and services it offers with user fees.

Proposed Major Strategic Goal #3

REFORM STATE GOVERNMENT

Our third major strategic goal should be to bring **maximum pressure on our State government** to stop increasing spending, taxes and borrowing (including unfunded liabilities for retirement benefits) at unsustainable rates, and to figure out how to generate strong growth in the economy, jobs and population.

- The Town of Fairfield should take **a much more active role** in advocating for change in Hartford, in addition to demanding strong representation from our State Senator and Representatives.

- Reforming Connecticut's state government will not be easy because of an apparent lack of consensus among voters about the nature of the State's problems and what should be done about them, perhaps because **too many voters do not have a long-term commitment to the State.**
    - A new constitution was adopted by Connecticut in 1965, the primary purpose of which was to change how representatives in the legislature were elected. Previously, each town was granted one or two representatives, and thus small towns enjoyed equal representation with large cities. Under the new constitution, the number of representatives was apportioned based on population.
    - In the 50 years since 1965, the voters have elected: (a) Democratic governors for 26 years, Republican governors for 20 years, and an Independent governor for 4 years; (b) a Democratic majority in the Senate for 44 years and a Republican majority for 6 years; and (c) a Democratic majority in the House for 46 years and a Republican majority for 4 years.
    - Some observers believe that public-employee unions exert undue influence over both our Executive and Legislative branches of government. Recent evidence of a close relationship between our government and the public-employee unions is that two outgoing legislative leaders, Christopher Donovan[28] (20 years in office) and Donald

[27] http://www.cushmanwakefield.com/~/media/marketbeat/2015/07/Fairfield_AMERICAS_MarketBeat_Office_Q2 2015.pdf
[28] http://ctmirror.org/2014/12/15/former-house-speaker-lands-job-at-teachers-union/

Williams[29] (22 years in office), both recently landed jobs with the State's largest teachers' union, the CT Education Association. Also, the head of CT's Department of Labor, Sharon Palmer,[30] is the former president of the American Federation of Teachers - CT, an AFL-CIO union representing 28,000 teachers and other workers.

- **Unfunded state mandates** (including 8-30g) should also be a focus of Fairfield's efforts to reform our state government.

Proposed Major Strategic Goal #4

TRANSFORM PARTS OF FAIRFIELD?

We have many opportunities to strategically evolve our town's services to meet the needs of a 21st Century community, and to keep Fairfield a vibrant and attractive community for new families as well as existing residents, including senior-oriented housing and services, bike lanes throughout town, improved town parking facilities, and even more attractive entertainment venues.

We should also consider bold, transformational changes, like **a complete makeover of Fairfield Center** (including the vacant Community Theatre), with a major public-private, mixed-use (commercial, residential, educational) development that would provide the following services and attractions:

- Access to Fairfield Center amenities including arts, entertainment, restaurants, main library, fitness centers, Sherman Green concerts, shopping, YMCA, parades, FTC.
- Hotel with conference facilities.
- A new, modern train station.
- Indoor public spaces and atriums offering year-round "outdoor" access.
- Grocery stores, dry cleaners.
- Senior Living support: retirement center; assisted living; nursing home; urgent and geriatric medical care; satellite nursing programs from FU and SHU; relocated Senior Center.
- Transportation: ample and convenient parking; Metro-North; bus routes; bicycles; Zip cars; frequent Town & Gown shuttles to and from Fairfield Center, Quick Center, classes, lectures and sporting events at FU and SHU.

Proposed Major Strategic Goal #5

HELP BRIDGEPORT

To some significant extent, Bridgeport's problems are Fairfield's problems. While many individuals and civic groups in Fairfield are already passionate supporters of our neighbors in Bridgeport, anything more we can do to help Bridgeport, whether at a personal, community, or governmental level, will also enhance Fairfield's future prosperity.

[29] http://ctmirror.org/2014/11/24/senate-leader-donald-williams-lands-job-at-teachers-union/
[30] http://ctmirror.org/2012/08/28/onetime-foe-joins-malloy-administration/

A STRATEGIC PLAN FOR FAIRFIELD – PART 4

Some Recommended Next Steps

This is Part 4 in Fairfield Taxpayer's series on this subject, which we hope will contribute to the creation of an effective strategic plan that will allow Fairfield to continue to prosper by keeping our Town both desirable and affordable for all its residents. As you will see and as we readily acknowledge, we raise far more questions than we answer. Our primary objective at this early stage is to stimulate thinking and debate among as many of Fairfield's stakeholders as possible on where we should focus and what additional information and analysis would be most helpful. One place you can go to express your views is www.FairfieldStrategicPlan.com, a new website created by Fairfield Taxpayer.

Part 1 addressed "***What is a Strategic Plan?***" and why we agree that having one would be good for our Town; Part 2 addressed the foundational questions: "***Where are we and how did we get here?***"; Part 3 addressed the ultimate questions: "***Where should we go and how should we get there?***"; and Part 4 will now recommend some "***Next Steps***."

Fairfield Taxpayer's recommended next steps are as follows:

1. The Board of Selectmen (B0S) should create a basic charter for a **Strategic Planning Committee** (SPC) in consultation with the Board of Finance (BOF), Board of Education (BOE), the Town Plan and Zoning Commission (TPZ) and the Representative Town Meeting (RTM), that establishes preliminary authorities, responsibilities and timelines.

2. The BOS should nominate a few members to an SPC Steering Committee for approval by the RTM.
   - The steering committee should consider the best size and composition of a larger SPC that will represent a cross-section of Fairfield's stakeholders (including businesses, private schools and colleges), and recommend such additional members to the BOS and the RTM. It will not be practical to represent every stakeholder group on the SPC, but the members should reflect the most important different perspectives, such as business, education, recreation, conservation, etc.
   - The First Selectman, a representative from the BOF, the BOE, the RTM and the TPZ, the Town Director of Economic Development, and the Chief Fiscal Officer should all be *ex officio* members of the SPC.
   - The steering committee should review the SPC charter and make any recommendations for changes to the BOS.

3. The full SPC should decide whether a consultant with municipal strategic planning experience should be retained to facilitate the planning process, and if so it should approve the issuance of an RFP for that purpose, consider candidates, and recommend a consultant to the BOS.

4. The SPC should create a "Plan for a Plan" and submit it for approval to the BOS.

5. As soon as possible, the SPC should create subcommittees and retain experts to address specific needs for additional information and analysis on what it considers to be key issues.

- For example, consider a special advisory committee of real estate developers and urban planners that could separately begin to reimagine how the Town could transform Fairfield Center.
- For example, consider whether to conduct a town-wide survey that would give all residents an opportunity to express their opinions. Farmington CT conducted a survey of this kind as part of its planning process, the results of which can be found at the following site: http://www.farmington-ct.org/docs/StrategicPlan/Final_Plan.pdf.

6. The SPC should create a user-friendly website dedicated to the strategic planning process where any stakeholder who is interested can find out what is happening and offer comments, and it should consider other ways to ensure maximum practical engagement by all interested parties.

7. The SPC should provide quarterly progress reports to a combined meeting of the BOS, BOF, TPZ and RTM.

Summary and Conclusion

At this point, since it is far too soon to draw any final conclusions about where Fairfield should go and how it should get there, Fairfield Taxpayer hopes that in our upcoming updates on this subject we will have the benefit of ideas, analysis, proposals and recommendations from hundreds of Fairfield stakeholders. Accordingly, we will end this initial series of papers with the following sign: