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Warning Signs: 2021 Update

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YANKEE INSTITUTE

Executive Summary

Most of Connecticut's towns and cities face significant unfunded liabilities from pension and retiree healthcare benefits promised to current and former employees. In fact, these liabilities have together grown more than $5 billion in just four years and are likely to climb even higher.

As a group, municipalities owe more money for benefits promised to current and former employees than they do for their own infrastructure. Many of these unfunded liabilities may ultimately prove to be even larger than current estimates as more realistic actuarial assumptions are applied.

The fiscal health of any of the state's 169 municipalities risks becoming a concern for all residents. This was most recently demonstrated by the state's 2018 financial rescue of Hartford, which saddled state taxpayers with over a half-billion dollars in payments over 20 years.

To measure the fiscal health of every town and city, Yankee Institute in 2018 worked with municipal finance expert Marc Joffe of the Reason Foundation. Joffe's updated analysis, using fiscal 2020 data, showed that the town of Stratford, the city of Bridgeport, and town of Hamden are the state's most fiscally stressed municipalities.

The General Assembly should reduce the uncertainty around unfunded liabilities by requiring municipalities to use actuarial assumptions equal to or more conservative than the state's main pension fund and to improve public disclosure. Towns and cities, meanwhile, need more flexibility to limit future liabilities by diverting new employees to defined-contribution retirement plans that are popular in the private sector.

Introduction: Cloudy Promises

Connecticut's state and local taxes are noteworthy on two levels. First, because they're among the country's highest by any practical measure. And second, because much of what is collected each year gets spent paying off debt for services that were delivered long before.

Governments typically incur debt to finance a lasting asset, such as a water pipe or a highway bridge. Projects are financed with bonds that spread repayment over much or all the asset's lifespan. People are getting use from it for as long as they are paying for it.

But for decades, both Connecticut's state government and its towns and cities have been accumulating another form of debt that leaves future generations holding nothing but an invoice. Many of today's taxpayers are paying for snow that was plowed, classes that were taught, and shifts that were worked long before they were born.

That's because public employers promised workers what amounts to a lifetime of benefits—namely defined-benefit pensions and retiree healthcare coverage—without setting aside adequate funds to pay for them. An employee who begins working for a municipality today could conceivably remain on that municipality's health insurance plan until the end of the century.

The practice of deferring personnel expenses has been exacerbated by Connecticut's widespread use of public-sector collective bargaining, where elected officials make binding promises to labor unions regarding pay and benefits, including pensions and retiree healthcare. This structure gives officials an incentive to shift costs to the future in order to limit the extent to which taxes must rise in the near-term.

What's more, Connecticut's legal framework forces employers to negotiate with unions before changes can be made to the retiree health benefits or pensions of workers who haven't yet been hired.

Recent improvements in government accounting standards have made it clear that state and local governments weren't paying the full cost of the services they were delivering—and now today's taxpayers must make up the difference.

In city after city, town after town, and in state government itself, the same situation has played out: catching up on these obligations means a larger portion of tax dollars must go toward these legacy costs rather than current needs, which puts them under fiscal stress.

Twenty-four cents of every dollar budgeted by Connecticut in its just-ended 2021 fiscal year (about $5.4 billion) went toward debt service and benefits for retired state employees, including substantial catch-up payments for underfunded pensions.[i] Another $1.6 billion was separately directed to state pension funds under rules controlling volatile income tax revenues.[ii]

Connecticut's unfunded liabilities for pensions and retiree healthcare mushroomed over the course of a decade from $6.7 billion in 2010 to $62.8 billion, or $17,433 per resident, in 2020. The state is paying for healthcare coverage for more retirees or their beneficiaries (77,000) than active employees (48,000).

Everyone's Problem

The fiscal health of each of Connecticut's municipalities, meanwhile, is a matter of statewide concern because state taxpayers have repeatedly picked up the tab when a local government faces insolvency.

Most notably, Governor Dannel Malloy in 2018 announced state taxpayers would pick up debt service payments totaling $754 million for the city of Hartford over the next 20 years.[iii]

"There is no two years of help that would straighten Hartford out," Malloy said at the time.[iv] The mayors of Bridgeport and New Haven meanwhile criticized the "Hartford bailout" and the extent to which state officials were "rewarding the past practices of other cities that put them on the edge of financial collapse."[v]

In addition to $20 million in special aid received by the state capital, Connecticut since 2018 has sent more than $6 million to the city of West Haven and $500,000 to the town of Sprague to help them stave off insolvency.[vi]

Yet many, if not most, municipalities are continuing the very practices that put them under fiscal stress in the first place.

Pensions

Defined-benefit retirement plans, which guarantee employees continual payments in retirement, are increasingly rare in the private sector. Just 25 percent of all U.S. workers had access to such plans in 2020, down from 31 percent in 2010.[vii]

About three-quarters of Connecticut municipalities, on the other hand, operate at least one defined-benefit pension plan in which employees have been promised specific payments in retirement based on their years of service and final average salary rather than on the amount of money set aside to cover the benefit.[viii]

Contributions from employers and employees fund investments which are meant to cover future pension payments. But taxpayers must ultimately guarantee these investments regardless of market performance.

Other factors muddy forecasting around pensions. Plans must make actuarial assumptions about how long retirees and their beneficiaries will live. And if plans give retirees cost of living adjustments based on inflation, as many Connecticut public pension plans do, administrators must forecast that as well.

Each local pension plan has its own rules about how employees contribute, when they vest, how benefits are calculated, and how investment returns and obligations are forecast.

Pensions were traditionally financed using low-risk, low-yield investments, such as bonds. But the combined pressure to maintain promised future benefits and minimize taxpayer contributions pushes funds to seek riskier investments.

The town of Fairfield, seeking big returns, directed about $15 million in pension funds to the Ponzi scheme controlled by financier Bernie Madoff.[ix]

In a similar vein, towns and cities have sometimes issued pension obligation bonds and placed the proceeds in their pension funds, essentially betting that their investments will get a better return than the interest costs.

Former New Jersey Governor Jon Corzine, an investment banker, described the practice as "the dumbest idea I ever heard."

In recent decades, Bridgeport, Stratford, Hamden, Naugatuck, New Britain, Waterbury, and West Haven have issued such bonds. Tempted by low interest rates, West Hartford joined the list in June 2021 when it sold more than $324 million in bonds, and Norwich is considering the same.[x] Governor M. Jodi Rell herself tried her hand at this, persuading the General Assembly to what amounted to an ill-timed $2 billion infusion into the state Teachers' Retirement System just as the global financial crisis was causing a market meltdown.

Recognizing how much risk pensions place on taxpayers, several municipalities in recent years have stopped retirements to their new hires and instead moved them to defined-contribution 401(k)-style plans. The town of Berlin was among the first to move away from offering defined-benefit pensions, and by 1988 was placing all new hires in a defined-contribution plan.[xi] More than three decades later, the town's per-capita pension debt is just $343, a fraction of neighboring Southington ($1,245), Newington ($1,817), and Meriden ($2,767).

Retiree Healthcare (OPEB)

Liabilities for retiree healthcare are reported by public employers as "other post-employment benefits," or OPEB.

OPEB costs are more difficult to predict than pensions because employers generally promise to cover all or part of a health insurance premium.

Forecasting that cost involves assumptions about how much health care costs will rise in the future, in addition to estimates about how investments will grow and how long retirees will live. Medical care costs, measured as a component of the Consumer Price Index, doubled between 2000 and 2020.[xii]

Unlike pensions, towns and cities have generally financed their retiree healthcare obligations as a pay-as-you-go basis, setting aside little or nothing when employees are working and instead planning to pay for their coverage in retirement long after they have left.

Just seven—Branford, Canton, Litchfield, Norwalk, Weston, Wilton, and Windsor Locks—reported having saved enough to cover at least 75 percent of future anticipated costs.

Westport officials in 2011 discovered that consultants had miscalculated the town's ostensibly fully funded retiree healthcare obligations. Instead, a subsequent analysis revealed, taxpayers were on the hook for close to $120 million in benefits (assuming a conservative discount rate).[xiii]

Deeper in the Red

A review of local government financial statements shows the debt picture has worsened since fiscal 2016, the focus of Yankee Institute's last review.

- Connecticut's total municipal long-term debt—including unfunded pension and OPEB liabilities—rose from $22.4 billion to $27.5 billion. Nearly all that increase was legacy personnel costs: total unfunded OPEB liabilities rose from $6.6 billion to $9.2 billion, and unfunded pension liabilities rose from $4.7 billion to $6.3 billion.
- For Connecticut's three largest cities—Bridgeport, Stamford, and New Haven—total long-term liabilities swelled from $4.1 billion to $6.4 billion.
- Two cities—Bridgeport and Waterbury—each face unfunded OPEB liabilities over $1 billion.
- The town of Hamden has more than $20,000 in debt per capita, the highest level in the state. On the other hand, 27 towns report less than $1,000 in debt per capita.
- The city of New Haven reports the highest pension debt per capita at $6,392.
- The borough (town) of Naugatuck has the state's highest unfunded OPEB liabilities per capita at $14,994—while 25 municipalities indicated they do not provide retiree healthcare in the first place.

The Fiscal Health Scores

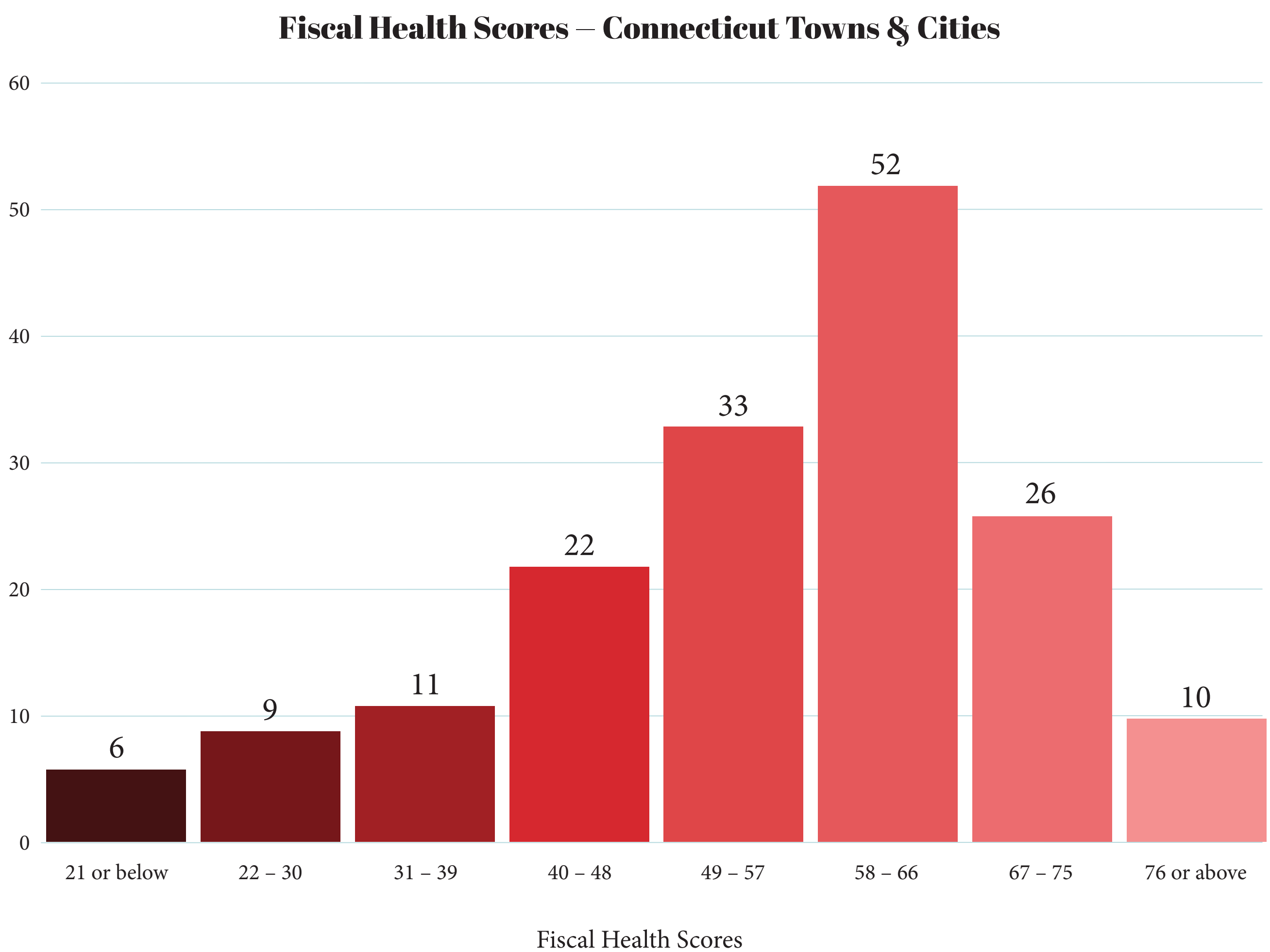
In 2018, Yankee Institute worked with municipal finance expert Marc Joffe of the Reason Foundation to measure the fiscal health of Connecticut towns and cities.

The analysis, which identified the New Haven suburb of Hamden as the state's most fiscally stressed municipality, proved prescient. In subsequent years, the town saw its bond rating downgraded and ultimately experienced a negative fund balance as legacy costs exploded.[xiv]

Joffe's formula has been updated to reflect the latest developments in municipal finance and applied to Connecticut municipalities using their fiscal 2020 financial statements (see methodology notes).

The fiscal health of each Connecticut local government was measured using five criteria:

- Its unrestricted net position compared to FY20 expenditures (20 points)
- Its total long-term liabilities compared to FY20 revenue (30 points)
- Its general fund balance compared to FY20 general fund expenditures (30 points)
- How home prices have changed in the municipality (10 points)
- How the region's employment level changed between June 2019 and June 2021 (10 points)



The scores range from 12 to 84 (table 1), and a score below 50 is associated with fiscal distress.

The three most-stressed municipalities—Stratford, Bridgeport, and Hamden— are each profiled later in this report.

Connecticut's 10 most-stressed municipalities are a diverse mix, ranging from the town of Seymour (population: 16,748) to Bridgeport (population: 148,654), its most populous city. Their average home price in June 2020 ranged from $137,703 in Waterbury to $312,423 in Milford.

Table 1

Fiscal Health Scores - Connecticut Towns & Cities

TOWN / CITY	FISCAL HEALTH SCORE
Stratford	12
Bridgeport	13
Hamden	14
New Haven	16
Waterbury	17
Seymour	21
West Haven	22
East Haven	24
Milford	25
Naugatuck	26
Hartford	26
West Hartford	27
Manchester	27
Stamford	27
North Haven	30
New Britain	31
East Hartford	31
Watertown	33
Meriden	34
Derby	34

TOWN / CITY	FISCAL HEALTH SCORE
Sprague	35
Danbury	35
Ansonia	37
Rocky Hill	37
Torrington	38
Fairfield	38
Guilford	40
Shelton	42
New London	42
Norwich	42
Ledyard	42
Cheshire	42
East Hampton	42
Wolcott	42
Plymouth	43
Farmington	43
Brooklyn	44
Trumbull	44
East Lyme	44
Greenwich	44

TOWN / CITY	FISCAL HEALTH SCORE
Wethersfield	45
Thomaston	45
Middletown	45
North Stonington	46
Bloomfield	48
Norwalk	48
Waterford	48
Woodbridge	48
Brookfield	49
Stafford	49
Windham	49
Middlebury	49
Old Saybrook	50
Bozrah	50
Ellington	50
Ridgefield	50
Southington	50
Westport	51
Newtown	51
Pomfret	51

Table 1

Fiscal Health Scores - Connecticut Towns & Cities

TOWN / CITY	FISCAL HEALTH SCORE
Thompson	51
Avon	52
Clinton	52
Prospect	53
Monroe	53
Windsor	54
Coventry	54
Orange	54
Griswold	55
Portland	55
Wallingford	55
Oxford	55
Redding	55
Suffield	56
Mansfield	56
Vernon	56
Scotland	56
Weston	57
Groton	57
Stonington	57
Voluntown	57
Glastonbury	58
Colchester	58
Darien	58
Ashford	58
Wilton	58
Berlin	59
Enfield	59
Plainville	59
North Branford	59
Deep River	59
Simsbury	60
Hartland	60
Woodbury	60
New Canaan	60
Madison	60
Union	60
Bristol	61
Salisbury	61
Bethel	61
Litchfield	61
Granby	61
Barkhamsted	61
South Windsor	62
Newington	62
Tolland	62
Canaan	62
Somers	62
Essex	63
Canton	63
New Hartford	63
Montville	63
Hebron	63
East Haddam	63
Canterbury	63
Lisbon	63
Bolton	63
Willington	63
Plainfield	64
Harwinton	64

Table 1

Fiscal Health Scores - Connecticut Towns & Cities

TOWN / CITY	FISCAL HEALTH SCORE
Franklin	64
Hampton	64
Beacon Falls	65
East Granby	65
Woodstock	65
New Fairfield	65
Haddam	65
Burlington	65
Easton	65
Winchester	66
Bethlehem	66
Putnam	66
Goshen	66
Preston	67
New Milford	67
Morris	68
Sterling	68

TOWN / CITY	FISCAL HEALTH SCORE
Durham	68
Lebanon	68
Southbury	69
Andover	69
Chaplin	69
Marlborough	69
Lyme	69
Cromwell	70
Kent	72
Windsor Locks	72
Westbrook	72
Sharon	72
Columbia	73
East Windsor	73
Eastford	74
Sherman	74
Killingly	74

TOWN / CITY	FISCAL HEALTH SCORE
Killingworth	74
Old Lyme	74
Middlefield	75
Chester	75
Norfolk	75
Branford	76
Bethany	78
Roxbury	78
Salem	79
Colebrook	79
North Canaan	81
Bridgewater	82
Cornwall	82
Washington	82
Warren	84

But they face similar problems: low fund balances and large liabilities compared to their annual revenues and expenses. In nine of the ten lowest-scoring towns and cities, unfunded liabilities for retiree healthcare exceed unfunded pension costs.

In fact, all 10 benefited from rising home values between 2019 and 2020, without which they would otherwise face even greater fiscal stress.

On the other end of the scale, the highest-scoring municipality was the Litchfield County town of Warren (population: 1,351) with a score of 84. The town has no OPEB liability (funded or unfunded) and years ago stopped enrolling employees in its pension plan. Warren also ended FY2020 with the state's highest general fund balance compared to general fund expenditures (almost 48 percent).

The four other towns that scored 80 or above were all smaller towns in Litchfield County: Washington, Cornwall, Bridgewater, and North Canaan. All four, like Warren, had strong fund balances and reported no OPEB liabilities.

The state's 25 highest-scoring municipalities, with two exceptions (Branford and Killingly), had populations under 10,000.

Smaller municipalities tended to have higher scores, indicating less stress: the largest third of towns and cities averaged 43, the middle third averaged 56, and the smallest third averaged 66.

But size doesn't tell the full story. Bristol, the state's 14th-largest municipality, earned a 61. Years of steady contributions left the city with no unfunded pension liability under its current assumptions, so much so that the city did not have to make a pension contribution in 2020.

Norwalk, the state's sixth-most populous municipality, earned a 48, meaning it faces much less fiscal stress than the state's largest cities (table 1). On a per-capita basis, Norwalk's pension, retiree healthcare, and overall long-term debt are all lower than Connecticut's other large cities. In 2012, Norwalk began enrolling certain new hires in a defined-contribution savings plan instead of defined-benefit pension.[xv] Danbury made a similar change around the same time.[xvi]

CT'S LARGEST MUNICIPALITIES (FISCAL SCORES)	
Bridgeport	13
Stamford	27
New Haven	16
Hartford	26
Waterbury	17
Norwalk	48
Danbury	35
New Britain	31
West Hartford	27
Greenwich	44

The scores, which used fiscal 2020 data, do not reflect the deluge of federal aid steered to local governments in response to the novel coronavirus pandemic. The infusion has temporarily buoyed government balance sheets—and concealed growing gaps between municipalities' long-term liabilities and their ability to pay.

#1: Stratford (Score: 12)

The town of Stratford's story captures many facets of Connecticut's experience over the past century. The town at the mouth of the Housatonic River experienced explosive growth before and after World War II, with the population nearly quadrupling between 1920 and 1960. Many residents were employed by a pair of defense manufacturers, Sikorsky Aircraft and a U.S. Army engine plant later operated by Textron. But the end of the Cold War, particularly the 1995 closure of the engine plant, hit the local economy hard. The town's population has been nearly flat since the early 1970s.

Today, Stratford faces more fiscal stress than any other Connecticut town or city.

The town's debt had topped three-quarters of a billion dollars by the end of fiscal 2020, and Stratford was one of just nine towns and cities whose total debt exceeds 200 percent of annual revenues. It also had one of the lowest general fund balances. Statewide fund balances averaged more than 21 percent of expenditures, but Stratford's was less than 3 percent.

Stratford's experience is a warning to every other municipality about the lasting effects of running up unfunded liabilities because much of the town's debt burden persists almost a decade after, as former Mayor John A. Harkins put it, being "officially out of the pension business."[xvii]

The town began diverting new employees to defined-contribution retirement plans in 1999 and stopped enrolling new employees in pensions altogether in 2012.

But Stratford's finances remain strained. The town was at the cutting edge of questionable financial practices. In 1998, despite a lack of explicit permission from the General Assembly, town officials issued $95 million in bonds without explicit legal authorization to boost their pension fund—a wager that pension investments would exceed the cost of borrowing. The town doubled down in 2013, borrowing another $163 million.

Despite this, the plan today is only 78.5 percent funded.[xviii]

#2: Bridgeport (Score: 13)

The city of Bridgeport, Stratford's western neighbor, is Connecticut's most populous municipality with almost 149,000 residents. The city's population peaked in the 1950 census and declined in each of the next five decades, only recently posting modest growth.

Bridgeport is no stranger to fiscal trouble. The General Assembly in 1988 established its first-ever state control board to address the Park City's swelling operating deficits.[xix] When it tried three years later to increase property taxes by 18 percent, Mayor Mary C. Moran instead had the city file Chapter 9 bankruptcy "to adjust its debts, and specifically to modify certain onerous and economically burdensome contracts."[xx] Bridgeport's petition was rejected on the basis that the city wasn't yet insolvent.[xxi]

The city, along with Waterbury, are the only two municipalities with (acknowledged) OPEB liabilities over $1 billion.

Bridgeport assumes a higher rate of return on its pension investments (7 percent) than Stratford's 6.75.

#3: Hamden (Score: 14)

How did the northern suburb of New Haven come to have the most debt per capita of any town or city?

For starters, by doing nothing: in at least two of the prior twenty years, town officials made no contribution whatsoever toward the pension plan, and in other years made only token payments.[xxii]

In 2013, officials warned the plan was five years away from running out of money.[xxiii] Today, despite issuing $125 million in bonds in 2015 to backfill the pension fund, almost 10 cents of every dollar in revenue must go toward pensions to cover new and existing obligations. Town officials did not make the entire necessary payment in 2020, when the town was experiencing a negative fund balance.

Table 2

Unfunded Pension Debt Per Capita

TOWN/CITY	UNFUNDED PENSION DEBT PER CAPITA
New Haven	$ 6,392
Hamden	$ 5,474
East Hartford	$ 4,936
West Hartford	$ 4,934
Hartford	$ 4,440
Norwich	$ 3,292
Bridgeport	$ 2,819
Meriden	$ 2,767
Greenwich	$ 2,453
New Britain	$ 2,449
Waterbury	$ 2,318
Glastonbury	$ 2,161
New London	$ 2,077
Old Saybrook	$ 2,037
Westport	$ 1,990
Cheshire	$ 1,962
Stamford	$ 1,912
Vernon	$ 1,904
Weston	$ 1,880
Trumbull	$ 1,865

TOWN/CITY	UNFUNDED PENSION DEBT PER CAPITA
Newington	$ 1,817
Bloomfield	$ 1,814
Danbury	$ 1,798
Manchester	$ 1,762
Milford	$ 1,761
Wallingford	$ 1,757
Fairfield	$ 1,727
Farmington	$ 1,683
Waterford	$ 1,613
Orange	$ 1,465
Norwalk	$ 1,447
Branford	$ 1,420
Naugatuck	$ 1,409
Torrington	$ 1,396
Avon	$ 1,389
Woodbridge	$ 1,387
Wethersfield	$ 1,363
East Haven	$ 1,359
North Haven	$ 1,333
Windsor	$ 1,324

TOWN/CITY	UNFUNDED PENSION DEBT PER CAPITA
Windsor Locks	$ 1,301
Stratford	$ 1,300
Plymouth	$ 1,292
Southington	$ 1,245
Clinton	$ 1,226
Redding	$ 1,225
Portland	$ 1,178
Ansonia	$ 1,092
Seymour	$ 1,087
North Branford	$ 1,067
East Hampton	$ 1,041
Simsbury	$ 984
Madison	$ 967
Stafford	$ 965
Guilford	$ 963
Montville	$ 943
West Haven	$ 943
Oxford	$ 868
Winchester	$ 865
Bethlehem	$ 838

Table 2

Unfunded Pension Debt Per Capita

TOWN/CITY	UNFUNDED PENSION DEBT PER CAPITA
Easton	$ 832
Griswold	$ 802
Wolcott	$ 786
Suffield	$ 765
Stonington	$ 757
Derby	$ 724
Watertown	$ 705
Bethel	$ 705
Bozrah	$ 686
East Windsor	$ 678
Mansfield	$ 673
Cromwell	$ 654
Groton	$ 650
Middlebury	$ 632
Canton	$ 608
South Windsor	$ 606
Beacon Falls	$ 582
Ellington	$ 571
New Milford	$ 567
Newtown	$ 551

TOWN/CITY	UNFUNDED PENSION DEBT PER CAPITA
Monroe	$ 550
Coventry	$ 528
Woodbury	$ 528
Andover	$ 481
Darien	$ 466
Litchfield	$ 447
Plainville	$ 430
Deep River	$ 425
Thomaston	$ 417
Brooklyn	$ 407
Southbury	$ 348
Granby	$ 348
Berlin	$ 343
Windham	$ 340
Ledyard	$ 336
Essex	$ 328
Rocky Hill	$ 308
East Lyme	$ 307
Warren	$ 306
Plainfield	$ 299

TOWN/CITY	UNFUNDED PENSION DEBT PER CAPITA
Woodstock	$ 288
Shelton	$ 287
New Fairfield	$ 276
Preston	$ 275
Wilton	$ 271
Morris	$ 268
Lebanon	$ 238
Lisbon	$ 224
Killingworth	$ 203
Enfield	$ 189
New Hartford	$ 186
Middlefield	$ 184
Ridgefield	$ 183
Chester	$ 178
Thompson	$ 166
Durham	$ 148
Haddam	$ 130
Canterbury	$ 121
Bethany	$ 98
Washington	$ 93

Table 2

Unfunded Pension Debt Per Capita

TOWN/CITY	UNFUNDED PENSION DEBT PER CAPITA
Somers	$ 88
Prospect	$ 85
Salisbury	$ 84
Harwinton	$ 84
East Haddam	$ 81
Westbrook	$ 73
Burlington	$ 47
Colchester	$ 40
Goshen	$ 22
Willington	$ 20
Ashford	$ 0
Barkhamsted	$ 0
Bolton	$ 0
Bridgewater	$ 0
Bristol	$ 0
Brookfield	$ 0
Canaan	$ 0
Chaplin	$ 0
Colebrook	$ 0
Columbia	$ 0
Cornwall	$ 0
East Granby	$ 0
Eastford	$ 0
Franklin	$ 0
Hampton	$ 0
Hartland	$ 0
Hebron	$ 0
Kent	$ 0
Killingly	$ 0
Lyme	$ 0
Marlborough	$ 0
Middletown	$ 0
New Canaan	$ 0
Norfolk	$ 0
North Canaan	$ 0
North Stonington	$ 0
Old Lyme	$ 0
Pomfret	$ 0
Putnam	$ 0
Roxbury	$ 0
Salem	$ 0
Scotland	$ 0
Sharon	$ 0
Sherman	$ 0
Sprague	$ 0
Sterling	$ 0
Tolland	$ 0
Union	$ 0
Voluntown	$ 0

Table 3

Unfunded OPEB Liability Per Capita

TOWN/CITY	UNFUNDED OPEB LIABILITY PER CAPITA	TOWN/CITY	UNFUNDED OPEB LIABILITY PER CAPITA	TOWN/CITY	UNFUNDED OPEB LIABILITY PER CAPITA
Naugatuck	$ 14,994	Danbury	$ 2,819	Old Saybrook	$ 1,107
Waterbury	$ 10,534	East Hartford	$ 2,756	Wethersfield	$ 1,053
Hamden	$ 10,252	Derby	$ 2,438	Bristol	$ 1,053
Milford	$ 7,874	Pomfret	$ 2,216	Ridgefield	$ 1,044
Bridgeport	$ 7,235	Stamford	$ 2,114	Meriden	$ 1,042
Middletown	$ 6,706	Windsor	$ 1,980	Cheshire	$ 1,041
New Haven	$ 6,125	Farmington	$ 1,974	Wallingford	$ 990
Stratford	$ 6,098	Fairfield	$ 1,844	Bethel	$ 958
West Haven	$ 6.074	Wolcott	$ 1,825	New Britain	$ 937
Manchester	$ 5,949	Ansonia	$ 1,746	Groton	$ 919
Bloomfield	$ 4,061	Westport	$ 1,650	Norwich	$ 916
Torrington	$ 3,960	Guilford	$ 1,632	Enfield	$ 898
Watertown	$ 3,905	Woodbridge	$ 1,632	Waterford	$ 884
East Haven	$ 3,837	Madison	$ 1,591	Ledyard	$ 828
North Haven	$ 3,636	Avon	$ 1,484	Granby	$ 822
Hartford	$ 3,449	Plymouth	$ 1,450	Woodbury	$ 800
Seymour	$ 3,428	Middlebury	$ 1,182	Trumbull	$ 796
West Hartford	$ 3,329	New London	$ 1,138	Monroe	$ 767
Thomaston	$ 2,920	Rocky Hill	$ 1,127	New Milford	$ 731
Orange	$ 2,890	Southington	$ 1,123	Westbrook	$ 723

Table 3

Unfunded OPEB Liability Per Capita

TOWN/CITY	UNFUNDED OPEB LIABILITY PER CAPITA
Clinton	$ 722
Brookfield	$ 691
Plainville	$ 668
Coventry	$ 648
North Stonington	$ 589
Colchester	$ 560
Plainfield	$ 557
East Lyme	$ 507
Redding	$ 447
Windham	$ 447
Berlin	$ 442
Lebanon	$ 426
Portland	$ 416
Greenwich	$ 414
Newington	$ 411
Glastonbury	$ 407
Putnam	$ 406
New Canaan	$ 402
East Granby	$ 400
Ellington	$ 399

TOWN/CITY	UNFUNDED OPEB LIABILITY PER CAPITA
Killingly	$ 399
Lisbon	$ 390
Willington	$ 385
Easton	$ 369
Bolton	$ 368
South Windsor	$ 350
Essex	$ 349
East Hampton	$ 341
Simsbury	$ 340
Suffield	$ 337
Franklin	$ 332
Hampton	$ 327
Stafford	$ 324
Norwalk	$ 322
Thompson	$ 321
East Windsor	$ 308
Vernon	$ 283
Griswold	$ 279
Winchester	$ 279
North Branford	$ 270

TOWN/CITY	UNFUNDED OPEB LIABILITY PER CAPITA
Prospect	$ 267
Oxford	$ 251
Canterbury	$ 243
Branford	$ 240
Bethany	$ 219
Bozrah	$ 210
Somers	$ 196
Newtown	$ 191
Ashford	$ 188
Cromwell	$ 183
Sterling	$ 180
Colebrook	$ 176
Darien	$ 171
Stonington	$ 169
Brooklyn	$ 147
Tolland	$ 143
East Haddam	$ 138
Hebron	$ 136
Andover	$ 135
Salem	$ 131

Table 3

Unfunded OPEB Liability Per Capita

TOWN/CITY	UNFUNDED OPEB LIABILITY PER CAPITA
New Fairfield	$ 129
Beacon Falls	$ 115
Chaplin	$ 114
Roxbury	$ 112
Montville	$ 97
Canaan	$ 96
Preston	$ 94
Columbia	$ 90
Sprague	$ 89
Marlborough	$ 72
Mansfield	$ 69
Eastford	$ 67
Litchfield	$ 61
Scotland	$ 60
Deep River	$ 51
Chester	$ 44
Woodstock	$ 32

TOWN/CITY	UNFUNDED OPEB LIABILITY PER CAPITA
Killingworth	$ 24
Burlington	$ 11
Canton	$ 10
Durham	$ 4
Barkhamsted	$ 0
Bethlehem	$ 0
Bridgewater	$ 0
Cornwall	$ 0
Goshen	$ 0
Haddam	$ 0
Hartland	$ 0
Harwinton	$ 0
Kent	$ 0
Lyme	$ 0
Middlefield	$ 0
Morris	$ 0
New Hartford	$ 0

TOWN/CITY	UNFUNDED OPEB LIABILITY PER CAPITA
Norfolk	$ 0
North Canaan	$ 0
Old Lyme	$ 0
Salisbury	$ 0
Sharon	$ 0
Shelton	$ 0
Sherman	$ 0
Southbury	$ 0
Union	$ 0
Voluntown	$ 0
Warren	$ 0
Washington	$ 0
Weston	$ 0
Wilton	$ 0
Windsor Locks	$ 0

Table 4

Total Long-Term Debt Per Capita

TOWN/CITY	TOTAL LONG-TERM DEBT PER CAPITA
Hamden	$ 20,769
New Haven	$ 18,897
Waterbury	$ 17,831
Bridgeport	$ 17,529
Stratford	$ 14,446
Milford	$ 13,540
Hartford	$ 13,523
Naugatuck	$ 11,506
Manchester	$ 11,118
West Hartford	$ 11,042
Middletown	$ 10,265
Bloomfield	$ 9,904
North Haven	$ 9,676
East Hartford	$ 9,193
Stamford	$ 9,074
West Haven	$ 8,925
Seymour	$ 8,100
Guilford	$ 8,021
New Britain	$ 7,975
Watertown	$ 7,715

TOWN/CITY	TOTAL LONG-TERM DEBT PER CAPITA
Westport	$ 7,704
Meriden	$ 7,606
Danbury	$ 7,455
East Haven	$ 7,268
Torrington	$ 7,111
New London	$ 7,032
Waterford	$ 6,914
Trumbull	$ 6,854
Clinton	$ 6,754
Thomaston	$ 6,747
Cheshire	$ 6,656
Fairfield	$ 6,618
Greenwich	$ 6,570
Norwich	$ 6,486
Orange	$ 6,413
Farmington	$ 6,389
Windsor	$ 6,332
Old Saybrook	$ 6,239
North Stonington	$ 6,136
New Canaan	$ 6,000

TOWN/CITY	TOTAL LONG-TERM DEBT PER CAPITA
Rocky Hill	$ 5,987
Bethel	$ 5,584
Norwalk	$ 5,570
Derby	$ 5,533
Woodbridge	$ 5,405
East Hampton	$ 5,280
Wolcott	$ 5,122
Southington	$ 5, 114
Wilton	$ 5,108
East Lyme	$ 5,003
Berlin	$ 4,960
Ansonia	$ 4,958
Putnam	$ 4,838
Stonington	$ 4,739
Plymouth	$ 4,669
Redding	$ 4,635
Franklin	$ 4,569
Wethersfield	$ 4,534
South Windsor	$ 4,499
Pomfret	$ 4,456

Table 4

Total Long-Term Debt Per Capita

TOWN / CITY	TOTAL LONG-TERM DEBT PER CAPITA
Wallingford	$ 4,373
Darien	$ 4,326
Madison	$ 4,264
Avon	$ 4,249
Glastonbury	$ 4,243
Enfield	$ 4,142
Weston	$ 4,017
Newtown	$ 3,998
Ledyard	$ 3,972
Middlebury	$ 3,962
Brookfield	$ 3,961
Groton	$ 3,952
Stafford	$ 3,899
Oxford	$ 3,883
Branford	$ 3,858
Windsor Locks	$ 3,795
Ridgefield	$ 3,759
Litchfield	$ 3,741
Vernon	$ 3,734
Monroe	$ 3,719

TOWN / CITY	TOTAL LONG-TERM DEBT PER CAPITA
Tolland	$ 3,634
Portland	$ 3,508
Bristol	$ 3,407
North Branford	$ 3,318
Plainville	$ 3,298
Newington	$ 3,250
New Milford	$ 3,199
East Haddam	$ 3,072
Sprague	$ 2,995
Coventry	$ 2,973
Westbrook	$ 2,947
Easton	$ 2,862
Bethany	$ 2,854
Simsbury	$ 2,841
Salisbury	$ 2,820
Cromwell	$ 2,695
Montville	$ 2,659
Union	$ 2,624
Bolton	$ 2,521
Sharon	$ 2,479

TOWN / CITY	TOTAL LONG-TERM DEBT PER CAPITA
Granby	$ 2,428
Colchester	$ 2,409
Killingly	$ 2,390
Essex	$ 2,375
Canton	$ 2,310
Bozrah	$ 2,303
Griswold	$ 2,290
Woodbury	$ 2,275
New Fairfield	$ 2,238
Canaan	$ 2,206
Preston	$ 2,179
Suffield	$ 2,119
East Windsor	$ 2,085
Ellington	$ 2,047
Beacon Falls	$ 1,952
Windham	$ 1,949
Deep River	$ 1,861
Haddam	$ 1,793
Marlborough	$ 1,731
Sterling	$ 1,643

Table 4

Total Long-Term Debt Per Capita

TOWN/CITY	TOTAL LONG-TERM DEBT PER CAPITA
Plainfield	$ 1,599
Winchester	$ 1,565
Thompson	$ 1,518
New Hartford	$ 1,492
Warren	$ 1,416
Lebanon	$ 1,392
Somers	$ 1,344
Sherman	$ 1,330
Scotland	$ 1,297
Shelton	$ 1,276
East Granby	$ 1,158
Cornwall	$ 1,140
Mansfield	$ 1,133
Salem	$ 931
Lisbon	$ 861
Bethlehem	$ 853
Norfolk	$ 824
Andover	$ 805
Brooklyn	$ 785
Woodstock	$ 777
Prospect	$ 770
Willington	$ 756
Lyme	$ 753
Burlington	$ 744
Kent	$ 682
Hebron	$ 632
Killingworth	$ 606
Canterbury	$ 580
Southbury	$ 505
Barkhamsted	$ 488
Ashford	$ 475
Morris	$ 441
Chester	$ 397
Durham	$ 393
Middlefield	$ 385
Old Lyme	$ 350
Hampton	$ 337
Washington	$ 321
Roxbury	$ 277
Voluntown	$ 274
Chaplin	$ 260
North Canaan	$ 230
Colebrook	$ 176
Columbia	$ 175
Harwinton	$ 100
Hartland	$ 72
Eastford	$ 67
Goshen	$ 38
Bridgewater	$ 27

It Could be Worse

The unfunded pension and OPEB liabilities faced by Connecticut towns and cities reflect a series of assumptions about future costs, and as such do not necessarily reflect the actual amount that will be paid out in the future. More generous assumptions about investment returns, for one thing, make near-term costs appear smaller.

The Connecticut General Assembly, strapped for cash and looking to avoid imposing a personal income tax, slashed its contribution to state pension funds in 1989 and 1990 by assuming investments would grow as much as 9.5 percent per year.[xxiv] (The S&P 500 index averaged less than 6 percent annual growth in the five years that followed).

There are reasons to believe the actual liabilities are still higher than what was reported in the fiscal 2020 financial statements.

First, municipalities are not subject to any state rules about how they expect investments to perform or how they value their future liabilities. Instead, local officials and their actuaries practice discretion when it comes to certain assumptions used in valuation processes.

The City of Middletown's most recent valuation, for instance, found assets exceeded liabilities by nearly $34 million, and as a result, the city reported no unfunded pension liability. To be sure, this reflects years of city leaders ensuring adequate contributions to their pension fund. The city, however, assumes a 7 percent rate of return. If the city were to use a more conservative 6 percent discount rate its balance sheet would carry a $21 million liability.

Connecticut's main state pension funds assume 6.9 percent returns, while neighboring New York assumes 5.9 percent returns for its state and local employee system.[xxv]

The valuation of long-term liabilities allows for unconventional accounting moves, such as the City of Hartford transferring ownership of a park in 2017 to its municipal pension fund.[xxvi]

Thirty-three of the state's municipalities report in their audited financial statements that they have no OPEB liabilities (funded or otherwise). This list includes the City of Shelton, where past union labor contracts have made explicit mention of municipal payments toward healthcare in retirement.

The cost of promised benefits continues growing each year as municipal officials make more promises to more employees. Some employees hired today can be expected to collect benefits for a longer than they will be on the job. And of those, some will inevitably be collecting benefits until the end of the century, despite having stopped working before 2050.

Recommendations

Connecticut's experience with guaranteeing future benefits constitutes an unheeded warning. State government itself, for one thing, continues enrolling new employees in defined-benefit pension plans.

With respect to municipalities, the General Assembly should take the following steps to ensure taxpayers have a realistic view of what they're expected to pay in coming years.

Require more frequent actuarial valuations and limit assumptions.

State law requires municipalities to have an actuary calculate its OPEB and pension liabilities at least once every five years. By comparison, the state re-evaluates its pension liabilities annually. The General Assembly should update the law to require valuations at least every three years using a tiered system, with the largest systems (gross liabilities over $100 million) undergoing annual valuations.

Given that a municipal debt crisis would ultimately become the General Assembly's problem, municipalities should not be making more optimistic assumptions about investment returns.

The State Employees Retirement Commission uses a 6.9 percent assumed rate of return in pension obligation valuations. The General Assembly should, at the very least, bar municipalities from making more optimistic assumptions about their own investments. With New York's systems already assuming returns below 6 percent, the General Assembly should consider limiting both state and municipal pension systems to assumed rates of return at or below 6.5 percent.

Restore local legislative control over pension benefits and retiree healthcare.

Pension rules and retiree healthcare benefit levels should be set by law, not negotiable benefits.

New York since 1973 has prohibited negotiating retirement benefits under the state's public-sector collective bargaining law.[xxvii] The Empire State's practice of setting pension rules in the State Legislature rather than in closed-door negotiations is a major factor behind the state's public pension systems being among the country's best-funded.

This reform would allow local governments to immediately place future employees in defined-contribution plans without first having to seek a labor union's blessing.

Improve transparency for municipal financial records.

The state's Freedom of Information Act should be amended to require municipalities to post all audited financial reports and actuarial reports on their websites within two weeks of their receipt for residents to inspect.

To make data in audited financial reports more accessible, the state should establish a standard for machine-readable disclosure based on eXtensible Business Reporting Language (XBRL). The XBRL standard is used for public company financial reporting and is being applied to municipal financial reporting in Florida.

Methodology Notes

Branford, Derby, Ansonia, Windham and Andover statistics reflect FY2019 CAFRs. Home price data uses the Zillow home value index (ZHVI).

Employment data from U.S. Bureau of Labor Statistics (BLS) Local Area Unemployment Statistics (LAUS).

The state's nine taxing boroughs are not included in the rankings. Their fiscal health scores were as follows:

BOROUGH	SCORE
Groton	71
Danielson	76
Jewett City	80
Newtown	89
Woodmont	92
Litchfield	48
Stonington	70
Bantam	90
Fenwick	80

Endnotes

[i] Connecticut State Budget FY20 and FY21, Appendix I, State of Connecticut, Office of Fiscal Analysis.

[ii] "Treasurer Wooden, For Only The Second Time In History, Transfers Estimated $1.623 Billion Budget Reserve Fund Excess To Pay Down Long-term Pension Liabilities," Press release, Office of the State Comptroller, 27 Sep 2021. portal.ct.gov/-/media/OTT/Press-Room/Press-Releases/2021/PR092721TreasurerWooden-Transfers-1623-Billion-Reserve-Fund-Excess-to-Pension-Liabilities.pdf

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[vi] CT Office of the State Comptroller, Open Checkbook

[vii] National Compensation Survey, U.S. Bureau of Labor Statistics

[viii] "Municipal Fiscal Indicators, Fiscal Years Ended 2015 to 2019," State of Connecticut, Office of Policy & Management, April 2021

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[xv] Koch, Robert. "Norwalk municipal unions ratify new pension plan," The Hour, 12 Jun 12. thehour.com/norwalk/article/Norwalk-municipal-unions-ratify-new-pension-plan-8164359.php

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[xvii] Lyte, Brittany. "Stratford FD New Hires Won't Get Pensions." *CT Post*, 18 Aug 12. ctpost.com/local/article/Stratford-FD-new-hires-won-t-get-pension-3798543.php

[xviii] Stratford FY20 CAFR p.48

[xix] Special Act 88-80

[xx] 128 B.R. 688 (Bankr. D. Conn. 1991)

[xxi] Judson, George. "U.S. Judge Blocks Bridgeport From Bankruptcy Court." *New York Times*, 2 Aug 91.

[xxii] Bellmore, Michael, "Hamden pension fund would be bankrupt in 5 years if no action taken, town official says," *New Haven Register*, 3 Mar 13. nhregister.com/connecticut/article/Hamden-pension-fund-would-be-bankrupt-in-5-years-11414914.php

[xxiii] Ibid

[xxiv] PA 89-333 hiked the Teachers Retirement Board assumed rate of return from 8 percent to 8.5 percent. SA 90-18 increased it to 9.5 percent. An MOU increased the State Employees Retirement System rate to 9.5 percent effective Jan. 1, 1990.

[xxv] "Latest Investment Return Assumptions," National Association of State Retirement Administrators, nasra.org/latestreturnassumptions

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