

MEMORANDUM

To: Selectboard
From: Peter B. Elwell, Town Manager
Re: FY20 Proposed Budget
Date: November 5, 2018



This “Budget Message” provides an overview of the FY20 Proposed Budget for the Town of Brattleboro. Both this document and the attached detailed budget address the Town’s General Fund, Capital Fund, and Solid Waste Fund. Separate documentation will be provided in the spring of 2019 regarding the proposed budgets for the Town’s fee-based enterprise funds (the Utility Fund and the Parking Fund).

The development of this proposed budget was a collaborative process in which every member of the Town’s management team and some other Town staff actively participated and substantively contributed. However, per the Town Manager’s duties and responsibilities set forth in State Statutes and in the Town’s Charter, I am solely responsible for the recommendations in this budget.

THE BROADER CONTEXT

Annual budget decisions should always be made in a longer term financial management context. Each year, we update the Comprehensive Review of Town Operations (CRTO) and set goals in the spring, update the Long Term Financial Plan (LTFP) in the summer, and do our budget preparation, review, and approval in the fall and winter. This allows plenty of time for each step in the annual cycle as we make plans, check those plans against our updated financial forecast, and then solidify those plans (as originally intended or modified, as necessary) in our annual budget.

In the 2018 update of the LTFP, we predicted that the FY20 Budget would be 2% lower than the FY19 Budget, reducing the overall cost of General Fund operations by approximately \$350,000. Instead, I am proposing an increase in total General Fund expenditures of \$68,563 (or 0.4%). Two things account for this almost \$420,000 swing. Over \$140,000 is in the employee health insurance program (premiums, HRA, HSA, and opt-out), which will increase by 11.5% (\$216,346) instead of by 3.9% (\$74,565) because this past year we experienced both more claims overall and many more serious claims (cancers, joint replacements, birth complications, etc.) than usual. I also am proposing a \$1,295,000 transfer to the Capital Fund while a \$1 million transfer was shown in the LTFP. That increased expense is 100% offset by a proposed \$295,000 use of fund balance. The net change in all other expenditures from the LTFP to the proposed FY20 Budget is essentially flat (a reduction of approximately \$15,000).

Last year’s budget message contained the following statement regarding two major goals from the CRTO: “As we continue to improve the application of financial management best practices to our Town budgets and financial oversight, there are two very significant concerns that remain insufficiently addressed: capital planning and non-tax revenues.” We made substantive progress in both of those areas this year.

Staff has created a realistic and financially sustainable plan for timely replacement of vehicles and major equipment items during the next 20 years. The \$495,000 of FY20 equipment replacement expenditures proposed in this budget provide full funding for Year 1 of the 20-year plan. We are still making final adjustments in the “out years” of the plan and will bring forward the entire 20-year schedule while the Selectboard is considering the FY20 Budget in the weeks ahead.

This proposed FY20 budget includes \$1 million of real-time cash funding for capital (equipment and projects combined). While this figure is still short of our long-term needs for investment in capital, it achieves a goal we established in 2015 to provide a minimum of \$1 million of annual cash funding for capital with higher amounts committed to capital when there is sufficient fund balance to augment our cash investment. For FY20, we have approximately \$295,000 of available fund balance so I propose a General Fund transfer to the Capital Fund of \$1,295,000. Here is the history of our progress in achieving the \$1 million “pay-as-you-go” goal:

FY16:	\$ 357,000
FY17:	\$ 509,775
FY18:	\$ 744,215
FY19:	\$ 965,000
FY20:	\$1,000,000

Revenues other than property taxes and use of fund balance are proposed to increase by \$119,054 (the equivalent of more than a penny on the Town’s municipal property tax rate) for FY20. This is the result of increases in investment income (\$58,000), rooms and meals taxes (\$55,000), and voluntary fees paid in lieu of taxes (\$16,000), offset by a slight decline in the net value of all other non-tax revenues. Despite this progress, the proportion of General Fund revenues provided by current year property taxes will increase from 84% in FY19 to 86% in FY20. The Town’s reliance on property taxes as our predominant source of revenue is normal in Vermont (due to State-imposed restrictions on municipal revenue sources) but it is still a significant continuing concern. Together with the staff at the Vermont League of Cities and Towns (VLCT), I convened three meetings of municipal officials in 2018 to discuss a range of challenges and opportunities that are particular to regional economic hub towns and cities. In 2019, we will build on those initial conversations to establish an ongoing regional hub coalition to (1) learn from each other how different communities cope differently with the current situation and (2) collaborate to seek changes in Vermont law to provide more revenue raising flexibility for hub communities (or for all communities).

THE BOTTOM LINE FOR FY20

Staff approached preparation of the FY20 budget with the dual goals of maintaining all current levels of service and containing the cost of Town government to the greatest degree possible. We achieved the first goal. No service reductions are proposed. As you will see in the major increases/decreases highlighted below and in the attached budget details, the departments also achieved the cost containment goal for operating expenses within their control.

The proposed FY20 General Fund Budget includes total revenues and expenditures of \$17,824,478, which is an increase of \$68,563 (or 0.4%) over the adopted FY19 General Fund Budget of \$17,755,915. Employee compensation and benefits are proposed to increase by \$322,446 (or 3.2%), mainly due to the previously mentioned \$216,346 (or 11.5%) increase in the cost of the health insurance program for Town employees and our families. Total cost of employee pay is proposed to increase by only 1.2% or \$88,675.

Insurance premiums for workers' compensation and liability coverage and related occupational health expenses are expected to increase by \$97,225 (or 13.0%). The transfer to solid waste is proposed to increase by \$40,000 (or 8.5%) based on our actual experience of the past two years, when lower than expected garbage bag sales and higher than expected recycling disposal costs required supplemental transfers from the General Fund to the Solid Waste Fund late in the fiscal year. Debt service will increase by \$31,125 (or 2.2%) due to the addition of \$59,425 for the first year of repayment of the funds borrowed for the purchase of the Fire Department's aerial ladder truck, partially offset by reductions in other debt service items. The transfer to capital is proposed to decrease by \$480,000 (or 27.0%) as we have less accumulated fund balance available to use in FY20 than in FY19. The net impact of all other proposed expenses is a decrease of \$15,794 (or 0.5%).

Overall, funding the FY20 Budget as proposed would require property taxes to increase from \$14,876,643 to \$15,301,152 (or 2.9%). Assuming no change in the Grand List, this would require a municipal tax rate increase of \$0.0369 (or "3.69 cents"). Actual taxes paid for FY20 would increase by \$36.90 over FY19 for each \$100,000 of property value.

REVENUES

Total General Fund Revenues are proposed to increase by \$68,563 (or 0.4%) from \$17,755,915 in FY19 to \$17,824,478 in FY20. The summary of broad revenue categories is as follows:

REVENUES	FY18	FY19	FY20	\$ Change	% Change
Property Taxes	\$ 14,277,946	\$ 14,876,643	\$ 15,301,152	\$ 424,509	2.9%
Rooms & Meals Taxes	\$ 350,000	\$ 365,000	\$ 420,000	\$ 55,000	15.1%
Transfer from Other Funds	\$ 328,000	\$ 315,200	\$ 315,000	\$ (200)	-0.1%
Use of Fund Balance	\$ 1,099,975	\$ 770,000	\$ 295,000	\$(475,000)	-61.7%
Other Revenue	\$ 1,437,920	\$ 1,429,072	\$ 1,493,326	\$ 64,254	4.5%
TOTAL REVENUES	\$ 17,493,841	\$ 17,755,915	\$ 17,824,478	\$ 68,563	0.4%

Property Taxes

This category represents the Town's portion of local property taxes collected from all sources. As described above, the proposed 2.9% property tax increase would cost each individual taxpayer an additional \$36.90 for the year (or \$9.23 per quarter) per \$100,000 of property value. The total overall increase in property taxes collected by the Town for municipal services would be \$424,509.

Rooms & Meals Taxes

This category represents the Town's portion of taxes collected by the State of Vermont on overnight stays and on food and beverage purchased from establishments providing such services in Brattleboro. This revenue source has increased significantly in recent years. For FY20, we predict collections at the same level as we received in FY18, which is an increase of \$55,000 (or 15.1%) over the FY19 budget.

Transfer from Other Funds

This category represents transfers from the Utility Fund and the Parking Fund in recognition of services (e.g. accounting, dispatch, administrative oversight, legal services) that are provided by General Fund operations in support of those enterprises. This category previously included small amounts that were transferred from the Recreation Department's donated funds to pay for debt service on General Fund financing of certain past Recreation facility improvements. Those Recreation debts are now fully repaid so they have disappeared from the budget for FY20, while the Utility Fund and Parking Fund transfers have

modestly increased. Overall, transfers from other funds are proposed to decrease by \$200 (or 0.1%) from \$315,200 in FY19 to \$315,000 in FY20.

Use of Fund Balance

Whenever possible, accumulated fund balance should be used for non-recurring expenses such as a particular capital project or a piece of equipment with a high price tag and a long useful life. By limiting the use of fund balance to these purposes, we protect the Town from becoming dependent upon non-recurring revenues to fund recurring expenses. Why does this matter? Because a town using fund balance for operating expenses is comparable to a household using its savings account for monthly living expenses. You do it occasionally, when necessary, but it is not a sustainable ongoing practice. The attached FY20 Budget proposes using \$295,000 of fund balance to pay for a large dump truck for Public Works (\$170,000), Phase 2 of a 5-phase renovation at the Living Memorial Park swimming pool (\$100,000), and replacement of windows in the Children’s Room of Brooks Memorial Library (\$25,000).

Other Revenue

This category includes all General Fund revenue sources that are not included in any of the other categories. It is expected to increase by \$64,254 (or 4.5%) from \$1,429,072 in FY19 to \$1,493,326 in FY20, due to a \$58,000 increase in investment income and a \$16,000 increase in voluntary fees paid in lieu of taxes, partially offset by a slight decline in the net value of all other revenue sources in this category.

EXPENDITURES

Total General Fund Expenditures are proposed to increase by \$68,563 (or 0.4%) from \$17,755,915 in FY19 to \$17,824,478 in FY20. The summary of broad expenditure categories is as follows:

EXPENDITURES	FY18	FY19	FY20	\$ Change	% Change
Staffing	\$ 6,962,532	\$ 7,147,457	\$ 7,236,132	\$ 88,675	1.2%
Employee Benefits	\$ 2,986,575	\$ 3,052,940	\$ 3,286,711	\$ 233,771	7.7%
Risk Management	\$ 654,650	\$ 747,775	\$ 845,000	\$ 97,225	13.0%
Department Expenses	\$ 1,886,916	\$ 1,889,713	\$ 1,924,200	\$ 34,487	1.8%
Legal	\$ 110,000	\$ 112,080	\$ 114,200	\$ 2,120	1.9%
Human Services	\$ 120,000	\$ 146,000	\$ 146,000	\$ -	0.0%
Transfer to Solid Waste	\$ 431,836	\$ 470,000	\$ 510,000	\$ 40,000	8.5%
Transfer to Capital Projects	\$ 800,192	\$ 524,000	\$ 800,000	\$ 276,000	52.7%
Transfer to Capital Equipment	\$ 1,044,000	\$ 1,191,000	\$ 495,000	\$(696,000)	-58.4%
Transfer to Skatepark	\$ -	\$ 60,000	\$ -	\$ (60,000)	-100.0%
Debt/Debt Service	\$ 1,567,525	\$ 1,440,200	\$ 1,471,325	\$ 31,125	2.2%
Other	\$ 929,615	\$ 974,750	\$ 995,910	\$ 21,160	2.2%
TOTAL EXPENDITURES	\$ 17,493,841	\$ 17,755,915	\$ 17,824,478	\$ 68,563	0.4%

Staffing

This category includes the cost of all employee salaries (including pay increases) and incentives (such as shift differentials or stipends for educational achievements or certifications) to be paid in compliance with applicable collective bargaining agreements. All of the current agreements will expire at the end of FY19, so the budget includes a “place holder” estimated across-the-board pay increase of 2% in FY20 for all employees (both union and non-union). Total General Fund staffing costs are proposed to increase by \$88,675 (or 1.2%) from \$7,147,457 in FY19 to \$7,236,132 in FY20.

Employee Benefits

This category reflects the total cost of employee benefits. That cost is proposed to increase by \$233,771 (or 7.7%) from \$3,052,940 in FY19 to \$3,286,711 in FY20. This significant increase is primarily due to the previously mentioned increase in the cost of the employee health insurance program (\$216,346 or 11.5%), which is the single most challenging factor we face in the Town's FY20 Budget.

Risk Management

The Town's budget for property, liability, and workers' compensation insurance costs is proposed to increase by \$97,225 (or 13.0%) from \$747,775 in FY19 to \$845,000 in FY20. This is due to the combined impact of a \$63,025 (or 10.6%) increase for workers' compensation insurance, a \$29,200 (or 22.3%) increase for general liability insurance, and a \$5,000 (or 33.3%) increase in occupational health costs. We noted in the CRTO that workers' compensation costs were rising too quickly. We have begun to take action to address this and have slowed the rate of increase. However, actuarially determined premiums such as these are based on multi-year averages so we are still experiencing cost impacts from past years of high claims experience. The increase in general liability costs is due to a review and reallocation of costs between the General Fund, Utility Fund, and Parking Fund.

Department Expenses

This category is the total of all non-staffing expenses that are included in the departments' operating budgets. The departments' aggregated non-staff expenses are proposed to increase by \$34,487 (or 1.8%) from \$1,889,713 in FY19 to \$1,924,200 in FY20. This is primarily due to an increase in the budget for contracted professional services in the Planning Department (\$24,000) and the Assessor's Office (\$4,000). Those increases are more than offset by salary savings in those two departments (and the related employee benefit costs) as a full-time position was eliminated in the Planning Department and a part-time position was eliminated in the Assessor's Office.

Legal

This category includes the fees for the Town Attorney's legal services and some small related costs. The category is proposed to increase by \$2,120 (or 1.9%) from \$112,080 in FY19 to \$114,200 in FY20.

Human Services

This category is the funding placeholder for the recommendations that will be forthcoming from Representative Town Meeting's Human Services Committee. For budget purposes, the allocations all are level funded from FY19 to FY20.

Transfer to Solid Waste

This category reflects the General Fund's solid waste subsidy, calculated by subtracting anticipated revenue generated by the sale of pay-as-you-throw garbage bags from the total cost for solid waste services (including the Town's collection contract with Triple-T and our annual assessment as a member of the Windham Solid Waste Management District [WSWMD]). This subsidy is proposed to increase by \$40,000 (or 8.5%) from \$470,000 in FY19 to \$510,000 in FY20. For the past two years, participants in the program have diverted more material than expected out of the garbage waste stream and into the compost and recycling waste streams. That very positive outcome resulted in the "problem" of lower than expected bag sales and higher than expected recycling costs, causing the Town to make supplemental transfers from the General Fund to the Solid Waste Fund late in each fiscal year. While uncertainty in the international recycling markets still makes this particular expense hard to predict, we are hopeful that the budget increase for this transfer and a reduced WSWMD assessment fee will help the Town avoid a supplemental transfer in FY20.

Transfer to Capital Projects

This category identifies the transfer from the General Fund to the Capital Fund (and to the Skatepark Fund in FY19) for infrastructure projects. That transfer is proposed to increase by \$276,000 (or 52.7%) from \$524,000 in FY19 to \$800,000 in FY20. The work at Brooks Memorial Library is needed to replace building elements that are failing and present a risk of injury to people and increased liability for the Town. Street paving and sidewalk repair/replacement are recurring annual maintenance programs. Replacement of the swimming pool deck and the warming shelter boiler at Living Memorial Park are overdue improvements that are part of a multi-year multi-phase project. The accessibility improvements at the Amtrak station are required for the Town to comply with directives from the U.S. Attorney's Office in Burlington.

Projects

\$ 55,000 to replace the fascia soffit trim on Brooks Memorial Library

\$ 25,000 to replace the windows in the children's room at Brooks Memorial Library

\$300,000 for street paving

\$ 70,000 for sidewalk repair & replacement

\$100,000 to replace the swimming pool deck and boiler at Living Memorial Park

\$250,000 to make Brattleboro's Amtrak station compliant with accessibility requirements

\$800,000 total transfer from the General Fund

(Funding = \$125,000 of General Fund Balance + \$675,000 of current revenue)

Transfer to Capital Equipment

This category identifies the transfer from the General Fund to the Capital Fund for the purchase of vehicles and other large equipment. That transfer is proposed to decrease by \$696,000 (or 58.4%) from \$1,191,000 in FY19 to \$495,000 in FY20, primarily because of the funding for a replacement aerial ladder truck for the Fire Department in the FY19 budget. All of the recommended FY20 expenditures are to replace existing vehicles or equipment that have reached (or exceeded) the end of their useful life.

Vehicles/Equipment

\$101,000 to replace two Police patrol vehicles (\$50,500 each)

\$ 35,000 to replace 35 guns and holsters (\$1,000 each) for the Police Department

\$ 12,000 to replace 12 ballistic vests (\$1,000 each) for the Police Department

\$ 25,000 to replace a digital fingerprint scanner for the Police Department

\$ 46,500 to replace a pickup truck for Public Works

\$170,000 to replace a dump truck for Public Works

\$ 46,500 to replace a pickup truck for Recreation & Parks

\$ 18,000 to replace an industrial mower for Recreation & Parks

\$ 10,000 to replace a thermal imaging camera for the Fire Department

\$ 31,000 for Computer Hardware (Townwide)

\$495,000 total transfer from the General Fund

(Funding = \$170,000 of General Fund Balance + \$325,000 of current revenues)

Debt Service

This category of expenditure reflects payments the Town must make on debt that was previously incurred and is not yet completely repaid. Overall, the Town's debt service costs are proposed to increase by \$31,125 (or 2.2%) from \$1,440,200 in FY19 to \$1,471,325 in FY20. That increase is the net change caused by the first year of ten annual payments of \$59,425 to repay the \$500,000 borrowed for the FY19 purchase of the aerial ladder truck for the Fire Department, partially offset by a slight decrease in debt service payments on the Town's outstanding bonds.

Other Expenses

This category represents the total of all General Fund expenses that are not included in any of the other categories mentioned above. These costs are expected to increase by \$21,160 (or 2.2%) from \$974,750 in FY19 to \$995,910 in FY20, primarily for small increases in the cost of IT (software licensing and maintenance) and employee training.

FUND BALANCE

The unassigned General Fund balance at June 30, 2018 (the end of FY18) was \$2,077,299 (unaudited). The Town's guideline calls for an amount equivalent to 10% of the proposed operating budget (\$1,782,948) to be kept available as a "rainy day fund," leaving \$294,351 of "excess fund balance" available for use in FY20. The proposed FY20 Budget includes \$295,000 as a "Use of Fund Balance" revenue item (to be used as part of the transfer to capital).

PERSONNEL COMPLEMENT

As previously mentioned, a part-time position in the Assessor's Office and a full-time position in the Planning Department have been eliminated and funding for contracted services in those two offices has been increased. This will save money and maintain or improve service levels. Overall, the proposed General Fund budget for FY20 includes funding for 116 full-time employees and 10 part-time employees, supplemented in some departments by on-call or seasonal staff. (In addition, the pay and benefits of 21 full-time employees are funded through the Town's enterprise funds.)

CONCLUSION

As in past years, the proposed FY20 General Fund Budget represents staff's best efforts to estimate the actual cost of maintaining efficient Town operations to maintain existing levels of service for another year. We look forward to working with the Selectboard and the public during the weeks ahead to address these and other questions as we refine this proposed budget for ultimate review and approval at the 2019 Representative Town Meeting.

Finally, I want to extend my gratitude to the members of the Town's management team for their excellent work in preparing the proposed FY20 Budget. Assistant Town Manager Patrick Moreland played an especially significant role in developing both the form and the substance of this document. Every other member of the management team did a responsible job of preparing their particular portion of the budget while remaining mindful of and concerned about the competing needs of other departments during the difficult process of prioritizing and re-prioritizing that led to my final recommendations.

PBE:

Attachments

- c: Patrick Moreland, Assistant Town Manager
- John O'Connor, Finance Director
- Steve Barrett, Public Works Director
- Mike Bucossi, Fire Chief
- Jenepher Burnell, Assessor
- Sue Fillion, Planning Services Director
- Mike Fitzgerald, Police Chief
- Hilary Francis, Town Clerk
- Starr LaTronica, Library Director
- Carol Lolatte, Recreation Director
- Mark Carignan, Police Captain
- Len Howard, Assistant Fire Chief