MEMORANDUM

To: Selectboard
From: Peter B. Elwell, Town Manager
Re: FY21 Proposed Budget
Date: November 5, 2019

This “Budget Message” provides an overview of the FY21 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 2020 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.

Staff is pleased to recommend an FY21 Budget that contains a substantially lower property tax increase (3.3 cents or 2.5%) than in the LTFP (4.4 cents or 3.5%) just two months ago. During our preparation of this proposed budget, we were able to conservatively predict an increase of $57,215 in revenue sources other than property taxes and use of fund balance. We also learned that our risk management insurance premiums will be unchanged for next year, which is $73,500 lower than the cost we predicted in the LTFP. The net impact of all other line items was almost exactly as predicted in the LTFP (within approximately $5,000 in an $18.4 million budget).

In last year’s budget message, I announced that we had achieved the Town’s goal of increasing annual cash funding for capital projects and equipment to $1 million (up from $357,000 in FY16). I also cautioned that additional increases would be needed in the future. While the proposed FY21 Budget includes level funding of this cash commitment to capital, we now can more accurately predict our longer term capital needs and recommend that the Town’s annual cash commitment to capital be increased to $1.5 million through small incremental increases over the next several years. This will enable the Town to adhere to our 25-year equipment replacement plan and to fund recurring annual capital expenses through the budget, while occasionally issuing bonds for generational improvements to major infrastructure. This is addressed in greater detail below in the section regarding the FY21 transfer from the General Fund to the Capital Fund.
Stormwater management costs are increasing significantly from FY20 to FY21 ($60,000 or the equivalent of more than half a penny on the property tax rate) due to State-mandated changes in the specifications for stormwater-related roadway maintenance and infrastructure. We have learned that other Vermont municipalities have created stormwater utilities to fund these costs more equitably, based on each property owner’s amount of impervious surfaces rather than on the value of their property. The State of Vermont (which, of course, pays no property taxes) would be a substantial ratepayer to a stormwater utility in Brattleboro, due to the large amount of impervious surfaces on I-91 and other State-maintained sections of highway. It takes months to properly establish a stormwater utility, so the higher stormwater related costs are proposed to be absorbed in the General Fund for FY21, but staff will bring forward additional information in the months ahead and will propose formation of a stormwater utility for future fiscal years.

Representative Town Meeting’s approval of the Selectboard’s recommendation to exercise the Town’s local option and create a 1% sales tax for FY20 reduced the municipal property tax burden from 86% of total revenues to 82% of total revenues. For FY21, the proposed 3.3 cent property tax increase would result in property taxes amounting to 82.5% of total revenues. Meanwhile, in a continuing effort to reduce the property tax burden, Brattleboro town officials are actively collaborating with other municipal officials and with the Vermont League of Cities and Towns on strategies to increase the diversity of funding sources available to regional economic hub communities and other municipalities throughout Vermont.

THE BOTTOM LINE FOR FY21

The proposed FY21 General Fund Budget includes total revenues and expenditures of $18,385,618, which is an increase of $317,426 (or 1.8%) over the adopted FY20 General Fund Budget of $18,068,192. Employee pay and benefits are proposed to increase by $503,207 (or 4.8%), mainly due to structural adjustments in employee pay being implemented during the first year of 3-year collective bargaining agreements. The net impact of all other expenditure line items is a decrease of $185,781 (or -2.5%) even after accounting for the increased cost of stormwater management and an increase in the transfer for capital equipment.

Overall, funding the FY21 Budget as proposed would require property taxes to increase from $14,801,497 to $15,175,827 (or 2.5%). Assuming no change in the Grand List, this would require a municipal tax rate increase of $0.0326 (or “3.26 cents”). Actual taxes paid for FY21 would increase by $32.60 over FY20 for each $100,000 of property value.

REVENUES

Total General Fund Revenues are proposed to increase by $317,426 (or 1.8%) from $18,068,192 in FY20 to $18,385,618 in FY21. The summary of broad revenue categories is as follows:

<table>
<thead>
<tr>
<th>REVENUES</th>
<th>FY19</th>
<th>FY20</th>
<th>FY21</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Taxes</td>
<td>$14,876,643</td>
<td>$14,801,497</td>
<td>$15,175,827</td>
<td>$374,330</td>
<td>2.5%</td>
</tr>
<tr>
<td>Rooms &amp; Meals Taxes</td>
<td>$365,000</td>
<td>$420,000</td>
<td>$440,000</td>
<td>$20,000</td>
<td>4.8%</td>
</tr>
<tr>
<td>Sales Taxes</td>
<td>$-</td>
<td>$630,000</td>
<td>$630,000</td>
<td>$-</td>
<td>0.0%</td>
</tr>
<tr>
<td>Transfer from Other Funds</td>
<td>$315,200</td>
<td>$330,000</td>
<td>$340,000</td>
<td>$10,000</td>
<td>3.0%</td>
</tr>
<tr>
<td>Use of Fund Other</td>
<td>$770,000</td>
<td>$337,119</td>
<td>$223,000</td>
<td>$(114,119)</td>
<td>-33.9%</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>$1,429,072</td>
<td>$1,549,576</td>
<td>$1,576,791</td>
<td>$27,215</td>
<td>1.8%</td>
</tr>
<tr>
<td>TOTAL REVENUES</td>
<td>$17,755,915</td>
<td>$18,068,192</td>
<td>$18,385,618</td>
<td>$317,426</td>
<td>1.8%</td>
</tr>
</tbody>
</table>
Property Taxes
This category represents the Town’s portion of local property taxes collected from all sources. As described above, the proposed 2.5% property tax increase would cost each individual taxpayer an additional $32.60 for the year (or $8.15 per quarter) per $100,000 of property value. The total overall increase in property taxes collected by the Town for municipal services would be $374,330 from $14,801,497 in FY20 to $15,175,827 in FY21.

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 beverages purchased from establishments providing such services in Brattleboro. This revenue source has increased significantly in recent years. For FY21, we predict collections at the same level as we received in FY19, which is an increase of $20,000 (or 4.8%) over the FY20 Budget (from $420,000 in FY20 to $440,000 in FY21).

Sales Tax
This category represents the Town's portion of taxes collected by the State of Vermont on retail sales in Brattleboro. This “local option” revenue source was recommended by the Selectboard and approved by Representative Town Meeting in 2019. Sales tax revenue for the first few months of FY20 does not accurately reflect the amount of revenue this new source will provide over the long term as the system is still “rolling out” and the Town’s actual receipts will lag behind the State’s collection of these taxes. Therefore, for FY21, we predict collections at the same level as we predicted for FY20, which is $630,000 (the equivalent of approximately 5.5 cents on the Town’s property tax rate).

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. Using the same formula as in prior years, the total amount of these transfers is proposed to increase by $10,000 (or 3.0%) from $330,000 in FY20 to $340,000 in FY21.

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. For FY21, staff proposes using $223,000 of fund balance to pay approximately 41% of the cost of replacing a 1994 fire engine.

Other Revenue
This category includes all General Fund revenue sources that are not included in any other categories. It is expected to increase by $27,215 (or 1.8%) from $1,549,576 in FY20 to $1,576,791 in FY21, due to a $20,000 increase in voluntary fees paid in lieu of taxes (caused by a prior year increase that was not yet reflected in the Town’s budget) and a new line item showing the estimated $20,000 that will be paid by Town employees as a contribution to the health insurance premiums paid by the Town, 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 $317,426 (or 1.8%) from $18,068,192 in FY20 to $18,385,618 in FY21. The summary of broad expenditure categories is as follows:

<table>
<thead>
<tr>
<th>EXPENDITURES</th>
<th>FY19</th>
<th>FY20</th>
<th>FY21</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staffing</td>
<td>$7,147,457</td>
<td>$7,285,432</td>
<td>$7,687,410</td>
<td>$401,978</td>
<td>5.5%</td>
</tr>
<tr>
<td>Employee Benefits</td>
<td>$3,052,940</td>
<td>$3,286,711</td>
<td>$3,387,940</td>
<td>$101,229</td>
<td>3.1%</td>
</tr>
<tr>
<td>Risk Management</td>
<td>$747,775</td>
<td>$845,000</td>
<td>$845,000</td>
<td>-</td>
<td>0.0%</td>
</tr>
<tr>
<td>Department Expenses</td>
<td>$1,889,713</td>
<td>$1,924,900</td>
<td>$2,025,915</td>
<td>$101,015</td>
<td>5.2%</td>
</tr>
<tr>
<td>Legal</td>
<td>$112,080</td>
<td>$114,200</td>
<td>$116,364</td>
<td>$2,164</td>
<td>1.9%</td>
</tr>
<tr>
<td>Human Services</td>
<td>$146,000</td>
<td>$185,595</td>
<td>$185,595</td>
<td>-</td>
<td>0.0%</td>
</tr>
<tr>
<td>Transfer to Solid Waste</td>
<td>$470,000</td>
<td>$510,000</td>
<td>$555,385</td>
<td>$45,385</td>
<td>8.9%</td>
</tr>
<tr>
<td>Transfer to Capital Projects</td>
<td>$524,000</td>
<td>$800,000</td>
<td>$460,000</td>
<td>$340,000</td>
<td>-42.5%</td>
</tr>
<tr>
<td>Transfer to Capital Equipment</td>
<td>$1,191,000</td>
<td>$495,000</td>
<td>$763,000</td>
<td>$268,000</td>
<td>54.1%</td>
</tr>
<tr>
<td>Transfer to Skatepark</td>
<td>$60,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-0.0%</td>
</tr>
<tr>
<td>Debt Service</td>
<td>$1,440,200</td>
<td>$1,471,325</td>
<td>$1,285,375</td>
<td>$(185,950)</td>
<td>-12.6%</td>
</tr>
<tr>
<td>Other</td>
<td>$974,750</td>
<td>$1,150,029</td>
<td>$1,073,634</td>
<td>$(76,395)</td>
<td>-6.6%</td>
</tr>
<tr>
<td><strong>TOTAL EXPENDITURES</strong></td>
<td>$17,755,915</td>
<td>$18,068,192</td>
<td>$18,385,618</td>
<td>$317,426</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

**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 four agreements expired at the end of FY19. Three of the four have been settled for the FY20-FY22 period and we have reached a tentative agreement on the fourth, so the budget includes the estimated cost of pay increases included in those contracts. There also is sufficient funding for a 2% across-the-board pay increase for non-union employees, as well as $30,000 in a line item called “Potential Wage Increases” to fund implementation of recommendations that will result from our ongoing review of the compensation received by all non-union employees. (Staff expects to complete that review in the weeks ahead and to offer recommendations to the Selectboard prior to the conclusion of our FY21 budget process.) Also, new funding in this category for FY21 includes the addition of the Sustainability Coordinator position created during FY20 and proposed funding for seasonal staffing in Public Works Department. The aggregate impact of all these factors is a proposed increase in total General Fund staffing costs of $401,978 (or 5.5%) from $7,285,432 in FY20 to $7,687,410 in FY21 (compared to an increase of $138,675 [or 1.9%] from FY19 to FY20).

**Employee Benefits**

This category reflects the total cost of employee benefits. That cost is proposed to increase by $101,229 (or 3.1%) from $3,286,711 in FY20 to $3,387,940 in FY21 (compared to an increase of $233,771 [or 7.7%] from FY19 to FY20). This slowing in the rate of increase of employee benefits costs is driven primarily by cost containment in the health insurance program for Town employees and our families. While we are experiencing another double digit percentage increase (10% or $161,609) in the health insurance premium, savings in other component parts of this program and a negotiated employee contribution to the premiums are expected to reduce the net increase in the Town taxpayers’ cost of this program (to 2.7% or $57,502). Nevertheless, as is true for most other employers, the health insurance program remains a significant cost for the Town as it amounts to 11.9% of the total proposed FY21 General Fund Budget.
**Risk Management**
The Town's budget for property, liability, and workers' compensation insurance costs is proposed to remain flat for FY21 at $845,000. This is a significant achievement and is the culmination of several years of working to better manage the risks of Town operations. The budget messages for FY19 and FY20 each contained this statement: “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.” For the most recent rating year, our “experience modification” was .94 (meaning our claims were 6% lower than the average for comparable employers) and our premiums will be unchanged for the coming year.

**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 $101,015 (or 5.2%) from $1,924,900 in FY20 to $2,025,915 for FY21. This is primarily due to increases in the cost of stormwater management, elections, and Police operations. The Police increase ($20,125) is comprised of small increases in a variety of individual line items. The “elections” increase ($8,000) is driven by the childcare and food costs for Representative Town Meeting (which previously were incurred as unbudgeted expenses). Stormwater management costs are increasing significantly (and will continue to for the next few years) to comply with State mandated changes in stormwater regulations, especially as they relate to handling drainage runoff from roadways. In the months ahead, staff plans to propose the creation of a stormwater utility to segregate the funding and costs for this program in the same manner as the Utility and Parking enterprise funds, but for FY21 we will need to absorb these costs (up from $24,500 in FY20 to $84,500 in FY21, not including the cost of labor in either year) in the General Fund and pay for them with property taxes.

**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 $2,164 (or 1.9%) from $114,200 in FY20 to $116,364 in FY21.

**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. The total of $185,595 is equivalent to 1.03% of the adopted FY20 Budget and 1.01% of the proposed FY21 Budget.

**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 $45,385 (or 8.9%) from $510,000 in FY20 to $555,385 in FY21. While the continued volatility of the international recycling markets has caused a significant increase in the cost of this service, there also are two very positive facts related to this part of the Town’s budget: (1) One reason why our General Fund subsidy of solid waste keeps increasing is because Brattleboro residents keep increasing their volumes of compost and recycling while decreasing their volume of garbage, resulting in fewer pay-as-you-throw bags and, therefore, less bag sales revenue; and (2) The Town is receiving more than $67,000 in FY20 property taxes from the owner of the solar array that sits on top of the closed landfill at the WSWMD, a source of revenue that did not exist two years ago.
**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 increase by $268,000 (or 54.1%) from $495,000 in FY20 to $763,000 in FY21. Since this is our first year of implementing the 25-year Capital Equipment Replacement Program, this cost will be much more stable in the future. Here are the actual changes in this transfer for the past 4 years and the projected changes in this transfer for the next 15 years:

FY18 = increased by 395.5%
FY19 = increased by 5.5%
FY20 = decreased by 58.4%
FY21 = proposed to increase by 54.1%
FY22 = projected to increase by 4.7%
FY23 = projected to increase by 4.8%
FY24 = projected to increase by 3.8%
FY25 = projected to increase by 2.1%
FY26 = projected to increase by 3.2%
FY27 through FY35 = Virtually level funded with a total 8-year increase of less than 5.8%

During the entire 25-year planning period, the average annual increase in funding for capital equipment is only $15,000. The median annual increase is $14,000 with a low year of 0 (level funding) and a high year of $38,000 (to fund the 4.8% increase in FY23). Long term planning and stable funding will provide greater certainty and transparency to Town taxpayers, will maintain an up-to-date Town fleet of vehicles and other capital equipment, and will facilitate more realistic planning of capital infrastructure projects. The recommended FY21 capital equipment expenditures are listed below:

**Vehicles/Equipment**
$550,000 to replace a 1994 Fire Engine
$ 33,000 for a Fire Alarm Radio Box (to meet the NFPA standard for alarm monitoring redundancy)
$ 31,000 for Computer Hardware (Townwide)
$ 44,000 to replace a 2009 Police Detectives Vehicle
$ 51,000 to replace a 2016 Police Patrol Cruiser
$ 15,000 for a Fine Mower (required for mowing roadsides, especially drainage ditches) for Public Works
$ 12,000 to replace a 2008 Walk Behind Mower for Parks
$ 27,000 to replace a 1989 Compact Tractor for Parks
$763,000 total transfer from the General Fund
*(Funding = $223,000 of General Fund Balance + $540,000 of current revenues)*

**Transfer to Capital Projects**
This category identifies the transfer from the General Fund to the Capital Fund for infrastructure projects. That transfer is proposed to decrease by $340,000 (or 42.5%) from $800,000 in FY20 to $460,000 in FY21. Looking to the future, staff believes the Town can keep up with our infrastructure repair and replacement needs if we focus on funding recurring needs (paving, sidewalks, and smaller projects) with cash, increase our annual cash commitment to capital (incrementally over the next several years) from $1 million to $1.5 million, and issue bonds at strategic intervals to fund larger scale projects that occur only once in several decades and provide "generational improvements." An example of generational improvements that warrant borrowing are the modernization of Public Works facilities for which planning has already begun, upgrades to various facilities at Living Memorial Park, and safety improvements at the intersection of Williams Street and Western Avenue. The opportune time to borrow for those projects would be in FY23, when payments on currently outstanding debts will have decreased by $362,025 (or 24.6%) since FY20.
For FY21, the following projects are proposed:

Projects
$ 25,000 2nd phase of 2-phase project to replace windows in the children’s room at Brooks Memorial Library
$330,000 for street paving
$ 75,000 for sidewalk repair & replacement
$ 15,000 Engineering Services to design a project to replace the roof at the Nelson Withington Skating Rink
$ 15,000 Engineering Services to design an upgrade to the maintenance building at Living Memorial Park
$460,000 total transfer from the General Fund (100% of which is to come from current revenue)

Debt Service
This category of expenditure reflects payments the Town must make on debt that was previously incurred and is not yet completely repaid. The Town’s debt service costs are expected to decrease by $185,950 (or 12.6%) from $1,471,325 in FY20 to $1,285,375 in FY21.

Other Expenses
This category includes all General Fund expenses that are not included in any of the other categories. These costs are expected to decrease by $76,395 (or 6.6%) from $1,150,029 in FY20 to $1,073,634 in FY21, primarily due to the elimination of the $100,000 climate protection line item (which has been replaced by the salary, benefits, and related operating costs for the new Sustainability Coordinator position as reflected elsewhere in the budget), an increase of $15,000 for ambulance services (FY21 is the next to last year of the Brattleboro discount that is being phased out of Rescue Inc.’s fee structure), addition of new line item to provide $10,000 for seasonal maintenance of port-a-potties and related public health services, and a $7,750 increase in information technology expenses (mostly for increases in software licensing and maintenance).

FUND BALANCE

The unassigned General Fund balance at June 30, 2019 (the end of FY19) was $2,047,513 (unaudited). The Town’s guideline calls for an amount equivalent to 10% of the proposed operating budget ($1,816,262 if there was no use of fund balance) to be kept available as a “rainy day fund,” leaving $231,251 of “excess fund balance” available for use in FY21. The proposed FY21 Budget includes $223,000 as a “Use of Fund Balance” revenue item (to be used, as described above, as part of the transfer to capital).

PERSONNEL COMPLEMENT

As previously mentioned, the FY21 Budget reflects the addition of a Sustainability Coordinator during FY20. Overall, the proposed General Fund Budget for FY21 includes funding for 117 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 FY21 General Fund Budget represents staff’s best efforts to estimate the actual cost of maintaining efficient Town operations to provide existing levels of service for another year. In a few areas, as noted, this budget also represents an increase in levels of service. We look forward to working with the Selectboard and the public during the weeks ahead to refine this proposed budget for ultimate review and approval at the 2020 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 FY21 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
   Sally Nix, Human Resources Director
   Mark Carignan, Police Captain
   Len Howard, Assistant Fire Chief
   Dan Tyler, Highway/Utilities Superintendent