



December 8, 2009

To the Honorable Mayor Hooper & City Council Members,

It is my honor to present my fifteenth City Manager's recommended Budget for operating the functions of the City of Montpelier during Fiscal Year 2011 (FY11). The General Fund and all proprietary funds (Water, Sewer, Parking, Capital, Cemetery and Parks) as well as the Senior Center are included.

The General Fund budget includes appropriations for the Cemetery Commission. The budget also includes requests for funding by outside agencies who will be placed in the budget. We have transitioned the Kellogg-Hubbard Library request from the city's budget to a full ballot item. The recommendation does not include any proposed bond issues.

Introduction:

With the national and regional economy suffering, inflation running at or below zero, Montpelier's property taxes already high and a property reappraisal in process which will likely increase overall residential values – not to mention financial concerns raised by the Scott Construction issue – this year's budget was guided by a firm desire to avoid a tax increase or any other unanticipated increases. The other guiding force was resident opinion obtained through the National Citizen Survey process.

Montpelier's budget is always a challenge since we see no appreciable annual revenue growth or increase in taxable property. Costs rise and demand for services remains. In difficult economic times demand on local government services rises with more theft, substance abuse, domestic abuse, stress, risky behavior for heat or comfort and the like. Winter weather and related expenses for plowing, sanding, salting and snow removal will occur.

City employees deserve credit for a large part of this year's budget success. Like others, the City has seen employee health insurance costs rise uncontrollably in recent years. Last year's 20% increase added nearly \$200,000 to the city's budget forcing heavy budget cuts and reduction of five full time equivalent positions. This spring, employees were told that the city's personnel costs were unsustainable. We did not want to continue layoffs while our service demands remained high but could not keep adding to the financial burden on property tax and utility rate payers. Reducing services to residents while simultaneously increasing taxes and rates was an unacceptable option.

Our outstanding employees responded positively to the challenge. They quickly formed a committee to look into health insurance options and went to work. The result was an employee driven recommendation to adopt a high deductible insurance plan using health reimbursement accounts (HRA's) for employees. This change will REDUCE the city's costs by nearly \$200,000 while also reducing costs to the employees and maintaining similar coverage. I congratulate the committee members for their hard work and all employees and employee groups for considering this change.

Overview:

This Budget recommendation contains the following:

- The FY11 General Fund budget totals \$10,017,814 which is an increase of \$216,067 (2.1%) from

the comparable FY10 spending plan. This includes the Senior Center and does not, of course, take into account the recreation budget under the School Board's control.

- Requires a NO increase in the property tax rate.
- Requires NO employee layoffs.
- Cost of living allowances are built into all employee wage and salary accounts consistent with the collective bargaining agreements. These are 3.25% for Public Works Union employees, and 3.5% for Fire Union employees. We do not yet have a contract with the Police union for FY11. I have included a 1.5% adjustment for non-union employees.
- Assumes full implementation of the new health insurance proposal.
- Does not use any general fund balance to support ongoing expenses. The Council supported a tough decision four years ago which eliminated the practice of subsidizing ongoing expenses with one-time reserves. We have used equipment fund and parks fund reserves to finance some specific purchases.
- Total number of Full Time Equivalent Employees (including Senior Center) is 108.78. This is a net increase of 1.8 from the FY10 budget. The budget adds a Police Officer funded by the COPS grant and previously approved by the Council. We have added back a .33 equipment operator in DPW, eliminated a budget full time Firefighter/EMT and replaced it with two part time EMT's a – a net increase of .5 FTE, and reduced a .2 clerk position in emergency management.
- All other funding for staffing remains the same as FY10.
- The budget includes a third \$70,000 (as with last two year's budgets) which represent about one-third of the contract cost for the reappraisal. We are, however, again allocating an additional \$23,025 from the state appraisal money to cover additional local costs associated with the reappraisal. This will provide additional time for our Assessor to oversee the project and also provides for some technical improvements to our mapping and data systems (beyond those which are included in the new appraisal software being installed by the Reappraisal firm.) I opted to utilize the reassessment reserve fund again since these costs are not expected to be long term structural budget changes but are directly associated with this project.
- Includes the School Resource Officer in the City's budget with the School Department will sharing 50% of the cost.
- The Water and Wastewater budgets have both been balanced so as not to require any rate adjustments to cover current costs. To eliminate deficits, they are both followed the multi year plan recommended by the rate committee and approved by the council.
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- The Affordable Housing Trust Fund has been again included at \$26,000
- The Community Justice Center has been funded at last year's net tax level. This is about \$11,000 short of their budget request to maintain operations.
- All community enhancement items have been reduced by 50% or a total of \$24,400. This includes Arts Grant Program, Green Up Day, Montpelier Alive, July 3 Celebration, Fall-winter celebrations (First Night), TW Wood Art Gallery, Capital City Band, Welcome Legislators, Holiday Lighting and USS Montpelier.
- The Capital Projects and Debt Service Program is funded at \$1,070,200 which is the same amount as FY10. Several large projects (flood mitigation, retaining walls) took up the bulk of

available money. The capital projects committee has recommended that an additional ballot item be placed before the voters for increased funding for roads.

- Reverses a trend of increasing the equipment plan to address the ongoing backlog of equipment needs. Equipment funding is down \$43,000 from last year. Some equipment, however, was able to be purchased with equipment reserve money.
- No changes are proposed for Parking in either operations or revenues. The Parking fund is balanced.
- Overall Department operating funds have decreased by 6%.
- Revenues from the State of Vermont such as Payments in Lieu of Taxes, Highway Aid, Grand List Maintenance funding and the Justice Center basic grant have been assumed to remain level. Given the State's fiscal condition, this is a questionable assumption and we will have to make adjustments accordingly.
- Grand list value is estimated to only grow by about 0.5 percent for next year which is generating about \$35,000 of new tax growth. However, newly reappraised property values will be implemented for 2010 meaning that there will be entirely new and lower tax rates. Rates shown in these documents are for the purposes of providing a fair comparison of budget impact.

Conclusion:

According to the survey, our residents identified Police, Planning, Parks and Roads (as well as with Schools) as key service drivers which reflect their overall satisfaction with the city. We have maintained funding and staffing levels in all of those areas. As mentioned earlier, the capital plan committee recommends an additional ballot item for increased road work.

The survey also highlighted citizen concerns with taxes, affordable housing and jobs. We don't have much influence over jobs but this budget has not reduced the local workforce. The budget includes \$26,000 for the Housing Trust Fund and maintains funding for the Community Development/Housing Specialist position in the Planning Department. As mentioned before, the budget does not require a tax increase.

I am grateful to the Department Heads for their conservative approach to this budget and their initial requests. They embraced the "no tax increase" goal and worked diligently to meet it. This proposal would mean the average annual increase over the last 10 years has been only 2.07 cents. It's my professional opinion that this property tax proposal can only be significantly reduced by re-visiting policy choices in areas like the capital plan, the equipment plan, use of fund balance, direct services or programs or even more aggressively pursuing fee increases or alternate tax/revenue sources. I remain concerned that the city government will not be able to meet the accumulated expectations of high services by the public and policy making boards.

This budget is a team effort from start to finish. I would like to particularly recognize the efforts of Finance Director Sandy Gallup who pulled together all of this information under some harried and stressful conditions.

I look forward to the Council's discussions on all of these budget issues and hope that the public will participate fully as well.

Respectfully submitted,

William J. Fraser
City Manager