City of Montpelier vermont

America's Small Town Capital

Mayor John Hollar

City Council Members:

Dona Bate
Jessica Edgerly Walsh
Tom Golonka
Jean Olson
Justin Turcotte
Anne Watson

William Fraser,
City Manager

Jessie Baker
Assistant City Manager

MEMORANDUM

To: Mayor Hollar & City Council Members
From: William Fraser, City Manager
Re: FY18 Budget Options
Date: December 13, 2016

In preparations for the FY18 Budget development process, the City Council expressed a variety of preferences for budget targets and priorities. Obviously the Council's adopted goals serve as the prime back drop for priorities along with core services, mandates and other fixed expenses. Financial targets expressed by Council Members included:

- Full Funding of Services
- 2.5% to 3.5% tax rate increase
- Inflation rate increase – 1.5%
- No increase - 0.0%

Our Leadership team met for three full days last week to develop a series of options which reflect the various funding levels and preserve priority items to the extent possible within various funding levels. We recommend that the Council review these levels and provide additional input as to your preferences and conduct a full workshop with the team on the 21st.

For ease of calculation, we used cents on the tax rate instead of percentages. With our municipal tax rate hovering just under $1.00 per $100, a cent and a percent are almost indistinguishable. We can easily make conversions and adjustments as necessary.

Starting Point: This is similar to the preliminary budget memo you received from the Finance Director with some final adjustments. We included the full $166,300 increase in capital and equipment as planned, $100,000 for the Montpelier Development Corporation and $50,000 for the Housing Trust Fund. Everything else was based on existing services, expenses and preliminary spending estimates. We calculated a 2% wage increase for all employees based on the existing Fire Union settlement for FY18.

This base total resulted in a net tax increase of $475,000 or 5.5 cents.

Responsible Review: Before developing different scenarios, we reviewed the entire budget for reductions/adjustments that we could and would make under any circumstances in order to deliver a prudent budget. We identified net tax reductions of $147,500 through this process. Included in this amount were $15,500 worth of savings resulting from cooperation between the Senior Center and Recreation Department.

This reduced the base total to a net tax increase of $327,500 or 3.8 cents.

Option 1. Full Service and Full Investment: We then identified those changes, mostly additions, which were necessary to meet council goals, priorities and service demands. These included the following:

1) Increase Zoning Administrator from .6 FTE to .8 FTE	$11,500
2) Add a 1 FTE Facilities Director (with benefits)	$105,000
3) Include MEAC request for program funding	$5,000
4) Fund Housing Trust Fund at $140,000 as per request	$90,000
5) Add a VISTA to Community Services as per transition plan	$10,000
6) Add matching funds for employee wellness program	$6,000
7) Extend pool season by two weeks in August	$7,500
TOTAL additions	$235,000

These additions plus the revised base budget above represent a fully funded budget addressing most goals, maintaining/improving services and investing in housing/economic development. The capital/equipment plan is funded. Net Zero community outreach is included.

This increases the base total to a net tax increase of $562,000 or 6.5 cents

Option 2. Service and Investment: From the above fully funded option, we tightened the belt in some areas while maintaining as many key service levels as possible. These reductions included:

1) Eliminate two week pool extension	$7,500
2) Eliminate raises for Management positions	$9,000
3) Cut the monthly Bridge article	$14,400
4) Reduce Police/Dispatch OT	$15,000
5) Reduce Fire OT	$15,000
6) Reduce DPW OT	$5,000
7) Eliminate employee wellness match	$6,000
8) Increase Community Services Fund Raising	$20,000
9) Eliminate Police Canine (near retirement age)	$13,000
10) Eliminate .5 FTE Finance position	$25,000
11) Reduce Housing Trust Fund to $110,000	$30,000
12) Reduce Fire Training	$1,000
13) Reduce Police tuition/fitness	$2,000
14) Fund portion of facilities director through capital	$20,000
Total reductions	$182,900

This reduces the base total to a net tax increase of $379,600 or 4.4 cents

Option 3. Tighter Service and less investment: This continued with belt tightening while also reducing some services and efforts currently done. The biggest impact is to our internal IT capacity

1)	Annual Report all digital	$4,000
2)	Reduce Asphalt	$5,000
3)	Reduce employee wages from 2% to 1.5% COLA	$19,000
4)	Change 1 FTE IT position to contract	$22,000
5)	Reduce Housing Trust Fund to $80,000	$30,000
	Total Reductions	$80,000

This reduces the base total to a net tax increase of $299,600 or 3.5 cents

Option 4. Reduced Priorities and Investment, add risk: At this level, the biggest impact is to Net Zero community outreach through Planning VISTA, MEAC funds and reduction of facilities director to part time. There is risk in assuming new dispatch revenue which is not in place at this time.

1)	Reduce Housing Trust Fund to $50,000	$30,000
2)	Eliminate Planning VISTA	$12,500
3)	Eliminate MEAC funding	$5,000
4)	Reduce Facilities Director to .25 FTE	$55,000
5)	Assume new Dispatch revenue	$50,000
	Total reductions	$152,500

This reduces the base total to a net tax increase of $147,100 or 1.7 cents

Option 5. Reduce existing commitments: This level contemplates eliminating support for key items. Some of these are controversial. At this level, however, the full $166,300 for capital/equipment and the full $100,000 for the MDC are included.

1)	Reduce Housing Trust Fund to $21,000 (current level)	$29,000
2)	Drop out of CVPSA	$47,000
3)	Eliminate Community Enhancements	$33,000
4)	Eliminate Facilities Director	$30,000
5)	Keep Zoning Administrator at .6 FTE	$11,500
	Total Reductions	$150,500

This reduces the base total to a net tax decrease of $3,400 or 0.0 cents

Additional or replacement reductions will necessitate direct service reductions, project reductions, changes in goals and expectations and/or reductions in capital/equipment funding.

The leadership team also suggests that the Council consider the idea of the local sales tax to generate $800,000 in revenue to offset competing needs.

Finally, I recommend the creation of an economic development infrastructure loan fund using $150,000 of one time money from the fund balance which would be repaid by increased taxes from a development over a set period of time. This would allow the city to participate in development projects by installing roads, water/sewer lines, etc. This is a similar concept to a Tax Increment Financing (TIF) district except that we would administer it locally with less restrictions than the formal state program. We would not, of course, be able to include education taxes.

As an example, assume a new development project was going to bring in $10,000 per year in new municipal taxes. The city could invest, say, $50,000 in infrastructure from this fund to help get the project in. The new taxes would go back to this loan fund for five years until the investment is repaid. The taxes would then go to the general fund and the loan fund would be available to assist other projects.

Such a fund would require policies, loan limits and terms, etc. which, ideally, would be created in conjunction with the Development Corporation. I see this as an important fiscal tool for the Corporation and the City for aiding development efforts.

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