



TOWN OF DURHAM
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October 31, 2014

The Durham Town Council
Durham, New Hampshire 03824

Re: **Administrator's Proposed 2015 Operational & Capital Budgets**
Administrator's Proposed 2015-2024 Capital Improvement Plan

Dear Honorable Members of the Council:

I am pleased to present the Administrator's proposed 2015 Budget, which includes the General Fund, Water Fund, Sewer Fund, Library Fund, Parking Fund, Depot Road Lot Fund, Churchill Rink Fund, Stone Quarry TIF Fund, and Downtown TIF Fund budgets, as well as the Administrator's proposed 2015-2024 Capital Improvement Plan incorporating the FY 2015 Capital Fund budget utilizing a ten-year time horizon for your review and consideration. The proposed budget once again allocates limited resources, supports funding for targeted initiatives, and is intended to generally sustain and in some very limited circumstances enhance the current level of municipal services available to residents and taxpayers of Durham. In general, I consider this a very frugal maintenance budget.

The development of the proposed budget was part and parcel of a rigorous, yet inclusive process. The Business Manager and I have evaluated (and modified as needed) each budgetary line item utilized by the municipality in an effort to assure ourselves, and thereby the Council, that requests are justified and reflect meaningful efforts on the part of our boards, committees, commissions, trustees, and departments to accomplish the broader goals and objectives articulated by the Town Council and the community as a whole. Our effort was intended to eliminate unnecessary requests altogether, identify and take advantage of new efficiencies, and align spending to the extent possible with the 2014-2015 Town Council goals thereby allowing the Council to focus its limited time on broader policy issues impacting the overall community.

Durham Has Responded to a Challenging Economic Environment

Much progress has been made in our collective efforts to make Durham a better place in which to live, work, and play over the last several years. We have worked hard to spend the taxpayers' money wisely and have provided the maximum number of desired services possible within the limits of the Town budget. Every effort continues to be made to stabilize the cost of the various services the municipality provides. Like many other communities throughout the state, the tax rate is significant and places a particularly heavy burden on the property taxpayer, particularly those on a fixed income. I note again what I have made plain in prior budget transmittals -- unless additional means of financing the requirements of local

government can be found, this burden will continue to increase, particularly amidst a general environment of downshifted costs from the state, additional Federal regulations, and limited revenue streams available to New Hampshire municipalities.

It is in this context that the Town of Durham has been engaged in the process of budget development for the 2015 Fiscal Year (January 1st – December 31st). The Durham Town Council established the following budget goal as part of its annual goal setting process, and this year's budget proposal is consistent with that goal: ***“Develop operating budgets that limit growth in the Town's portion of property taxes by the rate of inflation plus new additions to the Town's taxable base. This goal is for both the near and longer term.”***

A primary driver within Durham's municipal budget is personnel-related costs that account for 62.4% of total spending. A 2% increase has been budgeted for non-union non-library personnel in 2015, contingent upon successful performance evaluations. A 3% increase has been budgeted for library personnel in an effort to keep these employees fairly paid relative to the overall market. Over the next several years, we hope to make strides in making our library wages more competitive. Two collective bargaining contracts remain outstanding for 2015: firefighters and middle managers. No new money has been included in the proposed FY 2015 budget for these staff members. Increases would need to come through savings associated with new efficiencies, the transition to more cost-effective benefit structures, or through some other undetermined strategy.

The Importance of Sound Business Practices

The Town of Durham continues to be economically and prudently operated. It functions as a purveyor of public services, and staff is working hard to implement business practices to control costs and maintain the municipality's fiscal position during uncertain times. During the Great Recession we worked to hold operational expenses flat as a short-term strategy to limit the impact of the U.S. macroeconomic situation on Durham taxpayers. But this was not in and of itself a sufficiently broad or sustainable approach to address Durham's long-term needs. Faced with an escalating full (town, local school, state school, and county) tax rate in recent years, additional strategies were implemented with the goal of creating a more agile municipal entity poised to seize upon business, grant, and regulatory opportunities that are consistent with our community values and Council goals.

Examples of recent initiatives include: ***Economic development and smart growth activities*** intended to broaden the tax base to mitigate anticipated future cost increases across the municipal operation in areas that are specifically targeted for development or redevelopment; ***Making strategic investments to ensure Durham's long-term sustainability and resiliency*** such as bringing the Spruce Hole well on line in 2014/15, moving forward with an innovative integrated wastewater/stormwater strategy to address water quality deficiencies within the Great Bay Estuary, moving to renewable energy where viable, improving bicycle and pedestrian safety/connectivity, and more; ***Rethinking the manner in which services are delivered by departments*** utilizing *Kaizen/LEAN* techniques in an effort to improve efficiencies and mitigate cost centers over the long-term; ***Working with UNH to find win/win partnership opportunities*** intended to broaden the tax base, better link the

campus to the broader community, make Durham/UNH more desirable for residents/students/faculty-staff/businesses/visitors alike, and ensure fair compensation from UNH for its fiscal impact upon the Town; ***Controlling escalating health care benefit costs*** by changing health insurance providers, exploring new health care plan options for the mutual benefit of employees/employer, and discussing additional employee contributions toward health insurance co-pay levels; ***Coping with increasing utility costs*** and working creatively to offset them in the future through wholesale power purchase agreements and investment in green technology; ***Maintaining a strong balance sheet and favorable bond rating status*** by working to stabilize and in the long-term increase the unassigned fund balance within the General Fund, maintaining a strong Overlay account, realistic revenue/expenditure projections, and maintaining a contingency fund equal to approximately 1% of the total budget to cover unforeseen, unanticipated circumstances.

Fiscal Year 2015 Budgetary Proposal

This year's budget cycle has resulted in a proposed 2015 General Fund budget totaling \$13,731,918 a spending increase of \$576,889 or 4.39% compared to FY 2014. Non-property tax revenues are expected to increase in FY 2015 by \$330,408 or 6.0% to \$5,870,662. ***In total, this year's budgetary proposal is projected to increase the 2015 local municipal portion of the tax rate by 24 cents (or 2.9%) to \$8.58 from the estimated 2014 level of \$8.34.*** This proposal banks a residual of .3% toward future budget years (see description below).

Revenue projections do continue to include an annual \$238,809.00 payment from UNH to Durham, which began in 2009 to compensate the community for the University's financial impact upon the Town in areas such as roadways, traffic, and policing services. Budgetary projections take into account this additional revenue, additional growth in the tax base as a result of economic development efforts, setting Overlay at \$125,000 to address potential abatement requests, no use of fund balance other than for prepaid expenses, and recommended expenditures.

The proposed Sewer Fund budget reflects a 12.82% increase in user fees in 2015 (a rate of \$6.83 per hundred cubic feet), while the proposed Water Fund budget carries an anticipated 2.6% increase in user fees (a rate of \$4.82 per hundred cubic feet) for FY 2015.

The twelve-month July 2013 to July 2014 Consumer Price Index (CPI-U) numbers that we referenced at the outset of the budget development process were: U.S. City Index – 2% and Boston-Brocton-Nashua-MA-NH-ME-CT – 1.7%. The September CPI-U number, published in October of this year, was 1.7% for the U.S. City average. Therefore to be conservative, we used 1.7% as part of our calculation in establishing the spending cap envisioned in the Town Council's budget goals. An additional \$14 million of new assessed valuation created by development at the Lodges at Peak plus new residential and non-TIF district commercial construction increased the tax base by 1.5%. The sum of the two (CPI-U value of 1.7% + tax base increase of 1.5%) would allow for a tax rate increase of 3.2%. However, in an effort to contain tax rate growth relative to inflation and tax base expansion,

the Administrator worked to cap the projected FY 2015 tax rate increase at 2.9%. This leaves a residual of .3% for future years.

An additional \$15.6 million in new taxable value has also been created in the downtown Tax Increment Finance (TIF) district, however, that value is segregated and taxes from it are channeled solely to identify present or future projects within the TIF district itself. When the TIF district is retired, taxes generated by this new value will also be used to offset General Fund expenses.

While in the past I have included an overview section in this transmittal letter outlining significant increases/decreases included in the proposed budget, I believe it will be more informative this year to walk through the budget detail in the actual budget document showing the extensive reductions that have been made from department/board/committee proposals in order to remain within the Council's budget goals. Discussion will likely center on what has been eliminated from initial proposals and long-term implications for the Town of Durham, rather than what has been added.

Financing Plan for the New Town Hall

In regard to the new Town Hall facility at 8 Newmarket Road, the proposed FY 2015 Capital Fund budget includes a contingency financing plan using long-term debt to address a shortfall of approximately \$980,000 created by the termination of the Town's Purchase and Sale Agreement with Scott Mitchell for the redevelopment of the former Town Office site at 15 Newmarket Road as a pharmacy with drive through.

The Town Council will review a draft Request for Proposal (RFP) at its upcoming meeting on November 3, 2014 to market the old Town Office site with a stipulation that the historic building must be retained as part of the adaptive reuse of the structure. At this time, the plan would be for all proceeds from the sale of the 15 Newmarket Road site to be put toward the overall cost of the new Town Hall project.

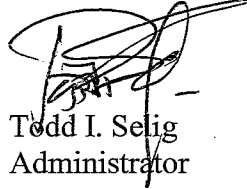
I do note that there has also been discussion amongst residents of whether the 15 Newmarket Road site should be retained as a future municipal use such as a fire station, police station, or for some other public purpose. These matters and associated financial implications will need to be worked through by the community and the Town Council in the coming months.

The tax rate impact of a \$980,000 bond over 20 years is around \$72,000 annually with an 11-cent tax rate impact in FY 2016, an increase of approximately 1.16%.

The construction price for the new Town Hall was \$1,978,160. As of the date of this letter, we have incurred approximately \$221,558 in change orders. This represents a project overage of around 11.2%. Typically with large municipal construction projects, change orders are in the 10% - 15% range. Through a spending freeze implemented last month, we are working to offset all project overages through other one-time reductions within the FY 2014 Operational Budget.

I look forward to talking more with the Council and the community concerning the FY 2015 proposed budgets and the proposed 2015-2024 Capital Improvement Program.

Very truly yours,

A handwritten signature in black ink, appearing to read "Todd I. Selig". The signature is stylized with a large, sweeping initial "T" and "S".

Todd I. Selig
Administrator

Enclosures