



TOWN OF DURHAM
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October 31, 2016

The Durham Town Council
Durham, New Hampshire 03824

Re: **Administrator's Proposed 2017 Operational & Capital Budgets**
Administrator's Proposed 2017-2026 Capital Improvement Plan

Dear Honorable Members of the Council:

I am pleased to present for your review and consideration the Administrator's proposed 2017 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 2017-2026 Capital Improvement Plan incorporating the FY 2017 Capital Fund budget utilizing a ten-year time horizon. The proposed budget allocates limited resources and supports funding for targeted initiatives consistent with Town Council goals. It is intended to be a steady state budget to ensure our operations remain mission ready to accomplish needed tasks as efficiently and effectively as possible for a community of our size and demographics, and taking into consideration the reality that Durham proudly hosts UNH, the State of New Hampshire's flagship public university.

As is the case each year, 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 necessary) each budgetary line item utilized by the municipality in an effort to assure ourselves, and thereby the Council and the community, that requests are justified and reflect meaningful efforts on the part of our boards, committees, commissions, trustees, and departments, as well as our various external partners, 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 where possible, and align spending to the extent possible with the 2016-2017 (and beyond) Town Council goals thereby allowing the Council to focus its limited time on broader policy issues impacting the overall community.

Much progress has been made in our collective efforts over the last few years in making Durham a better place in which to live, raise a family, work, and play. We have endeavored to spend the taxpayers' money wisely and have provided the maximum number of desired services possible within the limited constraints of the Town budget. Every effort continues to be made to stabilize the cost of, and find new efficiencies within, 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 NH local government can be found, this burden will continue to increase, especially 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 of limited resources that the Town of Durham has been engaged in the process of budget development for the 2017 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: *“Task the administrator with developing a budget for 2017 that holds General Fund expenses at current levels except for contractual increases including wages and benefits and a cost of living adjustment for non-unionized personnel. Develop a Capital Fund budget using increases in revenue projected and any increase in the tax rate if necessary. Specific itemized expenses for initiatives or projects that exceed this budgetary threshold but are deemed by the Administrator to increase efficiencies over time, are consistent with other Council goals, or are important for the general welfare of the community as part of the proposed budget shall be highlighted and include itemized rationale, as well as offsetting revenue as appropriate, for the Council’s discussion and consideration as part of the annual budget process.”*

A primary driver within Durham's municipal budget is personnel-related costs that accounts for 61.22% of total spending as part of the proposed 2017 budget. In furtherance of the Town's efforts to mitigate employee benefit costs, this budget proposal envisions increasing the non-union personnel co-pay toward monthly medical insurance premiums from 12.5% to 15% over the next year. Unionized personnel are in the process of transitioning (or have already transitioned) to a 15% health insurance co-pay or greater. Our DPMMA middle manager unit, for example, will have moved to a 20% co-pay on insurance by July 1, 2018.

A 2% increase has been budgeted for non-union, non-library personnel in 2017, contingent upon successful performance evaluations. An approximate 25% wage increase has been budgeted for many library personnel in recognition of the fact that they are underpaid relative to comparable positions in other communities. We have endeavored to make strides in compensating our library employees more competitively over the last two years but 3% annually will simply not allow us to achieve our goal. A market adjustment is necessary. One of our four collective bargaining agreements remains outstanding for 2017: the Durham Police Officers Association (DPOA) representing Durham's police officers.

Focusing Efforts to Improve Basic Fiscal Performance

The Town of Durham continues to be economically and prudently operated. It functions as a purveyor of public services, and staff continues to work hard to implement

business practices to control costs and maintain the municipality's fiscal position. 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:

1. ***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;
2. ***Making strategic investments to ensure Durham's long-term sustainability and resiliency*** such as bringing the Spruce Hole well on line in 2015/16, moving forward with an innovative integrated wastewater/stormwater strategy to address water quality deficiencies within the Great Bay Estuary, moving to renewable energy sources where viable (solar), and improving bicycle and pedestrian safety/connectivity;
3. ***Rethinking the manner in which services are delivered by departments*** in an effort to improve efficiencies and mitigate cost centers over the long-term;
4. ***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;
5. ***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;
6. ***Coping with increasing utility costs*** and working creatively to offset them in the future through wholesale power purchase agreements (a 640 kW DC solar array at the Packers Falls Gravel Pit) and investment in green technology;
7. ***Maintaining a strong balance sheet and highly competitive AA2 bond rating status*** by working to stabilize, and in the long-term, increase the unassigned fund balance within the General Fund to between 5 and 8 percent of annual spending as a reserve for emergencies and cash flow management, 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 2017 Budgetary Proposal

This year's budget cycle has resulted in a proposed 2017 General Fund budget totaling \$14,458,900 -- a spending increase of \$357,433 or 2.53% compared to FY 2016. Increases due to required wages and benefits as a result of collective bargaining contracts, a 2% COLA for non-union personnel, adequately budgeting overtime for the police department based upon historical actual usage, insurance increases, and NH State Retirement System downshifted costs to the local community total \$335,268, plus an additional \$48,000 to address lagging wages at the Durham Public Library. Non-property tax revenues are expected to *increase* in FY 2017 by \$212,947 or 3.64% to \$6,064,000. ***In total, this year's budgetary proposal is projected to keep the 2017 local municipal portion of the tax rate unchanged at \$8.48 for the third year in a row.***

It is of interest to note that of the 238 municipal entities surveyed by the NH Department of Revenue Administration, the 2015 equalized town (excluding county and school) tax rate for Durham is the 187th highest in the state. (In other words, there are 51 communities with higher town-only rates than Durham.) Higher rates can be found, for example, in Rochester (#203), Dover (#217), Somersworth (#222), Manchester (#225), Keene (#235), and Berlin (#238). Plymouth (#182) and Portsmouth (#180) are slightly less expensive than Durham's town-only rate.

Revenue projections do continue to include an annual \$253,352.00 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. At this time, UNH also supports 50% of the Fire Department operational and capital budgets, 2/3 of the cost of joint water and wastewater capital projects, and a pro rata (rolling 36 mo. average) share of the shared water and wastewater operating budgets for Durham and UNH (currently at 59.4% UNH and 41.6% Durham). Budgetary projections take into account this additional revenue, 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, and recommended expenditures.

The proposed Sewer (Wastewater) Fund budget reflects a 2.67% increase in user fees in 2017 (a rate of \$7.50 per hundred cubic feet), while the proposed Water Fund budget carries an anticipated 4.8% increase in user fees (a rate of \$5.61 per hundred cubic feet) for FY 2017.

The twelve-month September 2015 to September 2016 Consumer Price Index (CPI-U) numbers are: U.S. City Index – 1.5%, Northeast Urban – 1.3% and Boston-Brocton-Nashua-MA-NH-ME-CT – 2.3%.

New development in Durham increased the Town's tax base from \$916,456,045 in 2014 to \$964,931,959 in 2015, an increase of \$48.5 million or 5.2%, and again from

\$964,931,959 in 2015 to \$1,007,876,992 in 2016, an increase of an additional \$42,945,033, or 4.5%. Historically, our tax base has grown by around 1% per year. We project that the tax base will grow by an additional \$11,792,161 in 2017, an increase of 1.17%. Future economic development projects that may come to fruition over the next two to five years include: Durham Business Park (Phase II), Mill Plaza redevelopment, 66 Main Street, Young Drive redevelopment, Eversource Seacoast Reliability Project. All told, these future potential projects combined could add anywhere from \$60 - \$100 million to the local tax base.

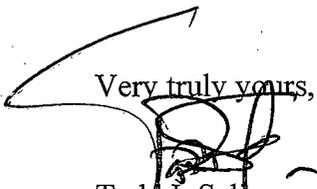
The downtown Tax Increment Finance (TIF) district assessment has increased by \$50.7 million over the value that existed as of its establishment date on April 1, 2013, for a total valuation of \$112.2 million. At present, the district retains 7% (or approximately \$106,000) of the tax dollars generated from this \$50.7 million of captured tax increment for purposes established by the Council within the downtown TIF, and 93% of captured value is released to the General Fund. When the TIF district is eventually retired, all captured value will be released to the General Fund. The primary purpose for captured downtown TIF monies is to help fund the creation of additional parking to support Durham's downtown core, the businesses located there, and the ability of full time residents to easily access goods and services in town.

Additions to this year's proposed budget include a \$1.96 million bond for an addition and renovations to the Durham Police Department (the Town Council unanimously voted in support of this initiative and moved the proposal forward for referendum on March 14, 2017), \$30,000 to support updating the Future Land Use Chapter of the Durham Master Plan, and an additional \$25,000 to support expanded parks & recreational programming. Due to the fact that the concept of creating a new land stewardship position to assist in better managing open space lands is still in its formative stages, funds are not allocated for this purpose at the present time.

Once again, the proposed FY 2017 budget is a steady state budget intending to ensure municipal operations remain in conformance with Town Council goals while also meeting the ongoing daily needs of the community. Details associated with the budget can be found within this FY 2017 budget book, the 2017-2026 Capital Improvement Program document, or within a separate informational booklet being prepared by the Business Office that will offer some high level analysis concerning the proposal per Town Council request.

I look forward to talking more with the Council and the community concerning the FY 2017 proposed budgets and the proposed 2017-2026 Capital Improvement Program.

Very truly yours,



Todd I. Selig
Administrator

Enclosures