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October 29, 2021

The Durham Town Council
Durham, New Hampshire 03824

Re: **Administrator's Proposed 2022 Operational & Capital Budgets**
Administrator's Proposed 2022-2031 Capital Improvement Plan

Dear Honorable Members of the Council:

I am pleased to present for your review and consideration the Administrator's proposed 2022 Budget, which includes the General Fund, Water Fund, Sewer Fund, Library Fund, Parking Fund, Depot Road Lot Fund, Churchill Rink Fund, and Downtown TIF Fund budgets, as well as the Administrator's proposed 2022-2031 Capital Improvement Plan incorporating the FY 2022 Capital Fund budget utilizing a ten-year time horizon. The proposed budget again allocates limited resources and supports funding for some targeted initiatives consistent with Town Council goals, to the extent it has been possible to do so responsibly while still meeting the budgetary needs of departments in order to safely and reliably meet the basic needs of the Durham community based on historical levels of service delivery and evolving challenges/opportunities. In light of the all-encompassing Covid-19 pandemic, which has thrown many of our plans and revenue/expenditure estimates over the last 18 months to the wind, this is generally intended to be a steady state budget to ensure our operations remain ready to accomplish needed tasks as efficiently, effectively, and healthfully as possible for a community of our size and demographics, taking into consideration the reality that Durham hosts UNH, the State of New Hampshire's flagship public university, and that the national emergency pandemic situation continues and will likely extend until at least mid-2022.

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 2021-2022 (and beyond) Town Council goals thereby allowing the Council to focus its limited time on broader policy issues impacting the overall community.

Business Manager Gail Jablonski and I have worked with Assessor Jim Rice concerning the projected future assessed valuation for Durham in 2022. After many discussions and much analysis, taking into account a conservative understanding of outstanding abatement appeals, we're projecting approximately \$9.6 million in new value; an increase of only around .77%. To offset the natural growth in municipal expenditures, we would ideally bring on an additional \$20 – \$30 million annually. For comparative purposes, between 2008-2012, we saw average annual valuation increases around \$6 million. During the development period experienced in Durham between 2014-2017, we saw average annual increases of \$28 million. It was this new development combined with ongoing careful budgetary management that allowed Durham to keep the local/municipal portion of the tax rate flat for four years in a row in 2015, 2016, 2017, and 2018. Without meaningful tax base growth, there is simply not a sustainable path to maintaining a flat (or reduced) tax rate for Durham.

General Fund revenues (exclusive of \$775,000 transferred in from Undesignated Fund Balance to offset the cost of outstanding potential abatement appeals), driven at least in part by continuing impacts from the pandemic, are up by only about \$36,000 from what was projected for 2021, representing a continuing impact to the Town's bottom line. Costs for managing our parking program and credit card fee processing for the downtown parking kiosks increased two years ago and we responded by increasing parking fees in attempt to offset this trend – but the pandemic has periodically stripped downtown Durham of demand for spaces resulting in a shortfall in revenue for 2021 and projected parking demand weakness into 2022. Revenue projections continue to include an annual \$150,000 payment from UNH to compensate the community for the University's financial impact upon the Town in the area of policing services, plus certain actual roadway costs associated with the upkeep and maintenance/resurfacing of Main Street running through the UNH campus between Pettee Brook Lane and the Rt. 155A intersection. 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 55.7% UNH and 44.3% Durham for Water; and 54.4% UNH and 45.6% Durham for Wastewater). These and other revenue numbers are helped by a projected \$889,000 per year in revenue from our PILOT with Riverwoods Durham, which began in 2019.

Budgetary projections take into account revenue and limited growth in the tax base, setting Overlay at \$900,000 (\$125,000 for general abatement requests plus \$775,000 to offset a PREFCO abatement (the "Goss" manufacturing facility on Technology Drive and other obligations for the Town stemming from 2021 abatement appeals. No projected use of fund balance to offset non-abatement expenditures is planned. Proposed expenditures for 2022, exclusive of the \$775,000 for potential 2022 abatement appeals noted above, are up by \$674,550 over 2021. (Note, for comparative purposes, the proposed budget for 2019, 2020, and 2021 – all three of which were lean, minimalist budgets -- included expenditure increases of \$505,830, \$514,200, and \$151,940, respectively.) Cutting more would result in ill-advised impacts to our operations. Unfortunately, I simply do not believe it possible to responsibly bring the Council a proposed budget holding the local municipal rate constant for 2022,

while also meeting other Council goals and my responsibility under the Charter to ensure the departments (and the Town) are prudently operated.

In the end, three factors impact the tax rate: **spending** (carefully designed to meet goals/community programming expectations), **revenue** (through user fees, grants, motor vehicle registrations, permits, etc.), and **assessed valuation** (derived through new development, new construction, or changing real estate market conditions). If spending goes up and revenue plus increased valuation cannot offset those increases, the tax rate must go up. Unless new revenue sources or additional means of financing the requirements of NH local government can be found, this burden will continue to increase for Durham property owners, especially amidst a general environment of downshifted costs from the state, additional Federal regulations, and limited revenue streams available to New Hampshire municipalities, along with lingering impacts to state and local revenues as a result of the Covid-19 pandemic.

As I note annually, significant progress continues to be made in our collective efforts in making Durham a better place in which to live, work, play, and raise a family. 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 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.

A primary driver within Durham's municipal budget is personnel-related costs that accounts for 61.56% of total spending as part of the proposed 2022 budget.

Fiscal Year 2022 Budgetary Proposal

This year's budget cycle has resulted in a proposed 2022 General Fund budget totaling \$17,638,250 -- a spending increase of \$674,550 or 3.98% compared to FY 2021. Increases are due to required wages and benefits as a result of collective bargaining contracts, a 2% COLA for non-union personnel, insurance increases, debt service costs, and other miscellaneous requests that will be discussed as part of the upcoming process. Non-property tax revenues are expected to modestly increase in FY 2022 by approx. \$36,000 or .47% to \$7,673,700.

In total, this year's budgetary proposal is projected to increase the 2022 local municipal portion of the tax rate by 2.98% from \$7.86 to \$8.09, an increase of 23 cents. The tax rate had remained at \$7.37 (formerly \$8.48 but adjusted due to 2018 statistical revaluation update) for 2015, 2016, 2017, and 2018. The proposed increase would cost the average Durham property taxpayer with a home valued at \$350,000 an additional \$80.50 in taxes for 2022.

The proposed Sewer (Wastewater) Fund budget reflects a .31% increase in user fees in 2022 (a rate of \$9.00 per hundred cubic feet), while the proposed Water Fund budget carries an anticipated 9.3% increase in user fees (a rate of \$8.46 per hundred cubic feet) for FY

2022. The largest impacts in the Sewer Fund include an additional bond payment for the Dover Road Force Main Project and a quarter of the DPW Projects Engineer position for a full year in 2022. The total Sewer budget appropriation proposal is up 3.4% from \$2,876,000 to \$2,974,500 – an increase of \$98,500. The biggest impact in the Water Fund is adding in a quarter of the new DPW Projects Engineer position for a full year. The total Water budget appropriation proposal is up 5.3% from \$1,190,200 to \$1,252,700 – an increase of \$62,500.

The twelve-month September 2020 to September 2021 Consumer Price Index (CPI-U) numbers are: U.S. City Index – 5.4%, Northeast – 4.6%, New England – 4.1%, and Boston-Cambridge-Newton, MA-NH – 4.0%.

This year's budget proposal generally represents a steady state budget request for 2022, adjusted on a line-by-line basis after consulting with departments, boards, committees, and commissions, reflecting updated realities/projections based upon our best understanding of the current landscape and needs of the community. Budget highlights include the following:

1. The part-time 16 hrs/wk Economic Development Director position is eliminated. We would utilize contracted service funds if bringing on board professional assistance is deemed beneficial in 2022 for specific initiatives.
2. The fire inspector position is again not funded in 2022 (it was not funded in 2021 either). This results in the continued complete pause of Housing Standards Ordinance inspections. It is recommended that the Council revisit in 2022 whether it desires to resume the Housing Inspection program in 2023 or beyond.
3. The FY 2022 proposed budget includes approximately \$15,000 in funding to continue to partner with the UNH Sustainability Fellowship Office to bring on a Graduate Student for the spring/summer/fall 2022 semesters to continue/drive forward our sustainability efforts in Durham in support of the Energy Committee and Council goals, as well as our commitment to the Global Covenant of Mayors for Climate Action and Energy initiative.
4. Funding included for a full-time GIS Manager position for a full year in 2022. (Note, this was funded for a partial year in 2021.)
5. Funding included for a full-time DPW Projects Engineer Position for a full year in 2022 to both keep up with workload, monitor compliance with numerous Federal/state permits, and to help the department become more proactive in its efforts, potentially saving capital project monies and increasing efficiencies over the long-term. (Note, this was funded for a partial year in 2021.)
6. The 21st police officer position at the DPD will remain vacant through September 2022 as a cost savings measure.
7. To meet the demands of our Parks & Recreation Department and ensure long-term sustainability/resiliency within that operation, the current part-time assistant position (at a cost of \$16,000) is eliminated and a new, full-time Assistant Director position is created as of January 1, 2022, at a cost of \$95,000 (\$50,000 wages, \$45,000 benefits).
8. To meet the demands of our MIS/IT Department and ensure long-term sustainability/resiliency within that operation, a new full-time IT support position

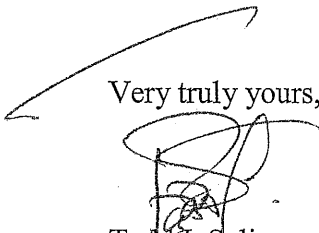
- will be created as of April 1, 2022, at a cost of \$75,000 (\$41,500 wages, \$33,500 benefits).
9. \$1,000 has been added to the Integrated Waste Management Advisory Committee to support increased public information around waste reduction, recycling, and composting. If additional funding is needed, we will address through DPW operational transfers or Contingency.
 10. \$3,600 in additional funding has been included in the Historic District Commission/Heritage Commission budget to support a sign campaign denoting important historic structures within the community as well as community outreach.
 11. \$3,500 is once again included in 2022 to support the planting of shade trees as part of our Tree City efforts.
 12. \$25,000 has been included as a new DPW CIP item to offset the cost of unanticipated facility needs/repairs/failures over the coming years. Not having monies budgeted in reserve for such purposes has proven a challenge for the department. This model closely parallels the reserve account we have established for \$50,000 within the Wastewater Fund for major component replacements/failures.
 13. The annual \$100,000 contribution (funded 50/50) between Durham/UNH to replenish our Fire Equipment Capital Reserve Fund intended to cover the cost of expensive equipment items at the DFD in a predictable, sustainable manner over time to avoid lulls and valleys in our funding reserve has been reduced to \$50,000 for 2022.
 14. McGregor Memorial EMS support is up \$2,400 for a total request of \$40,000 to reflect the cost of operations and a reallocation of costs across the four served communities (Durham, UNH, Madbury, and Lee) on a rolling average basis.
 15. The Oyster River Youth Association requested an appropriation of \$56,750 in funding for 2022. Because the Council had previously opted to phase out ORYA funding over several years in the past, this request was *not* included in the proposed budget. Reinstatement of such funding would need to be by Council initiative.
 16. \$118,000 has been included to cover the cost of two replacement police vehicles (hybrid) in 2022. These would represent our 4th and 5th hybrid vehicles within the fleet. Over time, we plan to transition our entire police patrol and command fleet to hybrid, and in turn our downshifted DPW and Town Hall staffing cars.
 17. \$450,000 is included for roadway resurfacing/reclaiming, as appropriate, in 2022 with cash to appropriate treatments for the following roadways: Back River Road, Mast Road, Pendexter Road, Timberbrook Lane, Wednesday Hill Road, and Wiswall Road.
 18. \$1.6 million is budgeted through debt service in 2022 to move forward a TBD solution for the historic, head of tide Mill Pond Dam on the Oyster River. Once the community determines a definitive future course with regard to this structure, engineering, design, and permitting can begin and funding would be fine-tuned for 2022/2023. \$275,000 was budgeted in 2021 to commence engineering services. While the Council by a vote of 7-2 on September 13, 2021, directed staff to move forward with a contract with VHB Engineers for engineering services for dam removal, a petition referendum to reverse that action was submitted by residents on

- October 12, 2021, and subsequently certified by the Town Clerk. As such the question will appear at an upcoming TBD Town election. The Town has been advised by external potential project partners that significant offsetting grant funding would be available to help defray the cost of a dam removal/river restoration option, while minimal external funding exists for a dam repair option.
19. The future Madbury Road roadway, complete streets, and water line project along this central corridor represents a significant, multi-million dollar phased capital undertaking for the Town in the coming years. It is recommended that Councilors review this project closely in the attached CIP plan.
 20. Significant future facility upgrade/maintenance costs exist in the coming years for our Wastewater Treatment Plant. It is recommended that Councilors review these projects closely in the attached CIP plan.
 21. \$175,000 is budgeted (payment 3 of 3) to support the Piscataqua Region Estuaries Partnership (PREP) CArE (Critical Advances for our Estuaries 2020-2022) initiative, made possible 100% through the funding collaboration between Eversource and Durham (with Durham's \$525,000 in SRP settlement funds for the Estuary).

To reiterate, the FY 2022 budget is a basic budget proposal intending to ensure municipal operations remain in conformance with Town Council goals while also meeting the ongoing daily needs of the community. There are few innovations/enhancements, yet those that are noted are believed to be important for the community. Details associated with the budget can be found within this FY 2022 budget book, the 2022-2031 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 for Town Council and community information.

I look forward to talking more with the Council concerning the FY 2022 proposed budgets and the proposed 2022-2031 Capital Improvement Program.

Very truly yours,



Todd I. Selig
Administrator

Enclosures