

REVISED BUDGET PLAN

FROM THE TOWN MANAGER

AUGUST 2, 2017

The situation the State has put us in is very difficult to manage for both the Town and Board of Education. As stated on several occasions, we over the years, have done everything right from developing proper reserves and financial policies to limiting exposure from high cost health plans, as well as providing only Defined Contribution Pension Plans. Furthermore, we have developed a reputation for having outstanding Town and Education services at a fraction of the cost that other Towns pay. Yet due to costs associated with rapid growth in the early 2000s when we were at one time the fastest growing community in the State, the lack of revenue diversification due to limited land mass for development, the expense of building on available land and limited market for additional retail services, we find ourselves with a equalized mill rate above the average. So absorbing larger than normal tax increases due to reduced State aid becomes more problematic. Yet unlike the State, TOLLAND knows the need to legislate. We listen to our constituents, study the issue, debate and ultimately legislate. Doing nothing to address an issue is abdicating your responsibilities. After listening to residents for many months and waiting for some direction from the State on budgetary matters, I feel it is time to recommend a changed course of action. Let's adopt what I am calling a "Hope and Prayer" (H&P) Budget that is now apparently the new norm for local government budgeting in an era of no State budget. While

our fiscal year moves forward, school is about to start, winter will be here shortly and with the withholding of State funds, cash flow will be an issue.

We need to be able to plan a course of action for at least the next two fiscal years and possibly beyond. In May our budget process was suspended in hope and a prayer that the State after eight months could figure out a budget, but that has not happened. Now, inaction at the State level means the Hope and Prayer method of budgeting must be adopted by TOLLAND and other towns because no one can, or will, tell us what our revenue will be from State sources. Hope and a prayer or devastation to services; I chose the former and I hope you do too. This will require sacrifice by all. I know what I am proposing isn't perfect. I hope and pray that what I am estimating as a loss in State revenues will be less than anticipated and that the long-term financial impact to Tolland will be more favorable. In the best interest of the future of this Town, I ask that we come together around this plan and advocate its acceptance.

Here is my outline of the H&P budget for your review:

1. The Resource Allocation Plan of the Governor reduced our ECS funding by 76.82% or by \$8,284,670.

The Hope and Prayer (H&P) budget reduces our ECS funding by 50% or \$5,435,521.

2. The budget I prepared in March reduced Town expenditures by \$343,291. This is a 2.89% reduction in overall spending of the Town operating budget.

Those reductions are part of the H&P budget.

3. The Board of Education budget forwarded to the Town Council and me for consideration had a 2.14% increase. I reduced that request in my Manager's Recommended Budget to 0%. Furthermore, I reduced the Board of Education budget by 1.2 million dollars based on the Governor's recommendation to create a new special education grant that goes directly to the Board. The Resource Allocation budget did not mention the new special education grant.

The H&P budget keeps the BOE at the same level as 16/17 expenditures and in addition assumes that Special Education grant will be 50% of what the Governor proposed or \$600,000. Therefore, I am reducing the FY 16/17 expenditure level of the BOE by \$600,000. While I am hopeful this reduction will be offset by a new special education grant, should this not be the case, this type of reduction in education expenses is within the norm of the Minimum Budget Statute based on our adjusted student populations as explained at recent meetings by the Superintendent of Schools. In addition, new programs of the BOE may achieve cost avoidance or new revenue that could mitigate a reduction of this nature. The expenditure level included in the H&P budget for the BOE is \$38,733,948. Should the grant eventually be more than \$600,000, the BOE will have additional funds to utilize at their discretion not to exceed their original budget request. Should the grant not be part of the ultimate State budget or be funded in a lesser amount, the BOE will have to make expenditure adjustments.

4. The capital improvement budget contained in my March budget included \$142,093 in General Fund dollars.

The H&P budget contains no increase in General Fund dollars for capital improvements. For some projects we are able to use other sources of funds, but some projects such as the painting of the Arts Building and Jail Building repairs shall be deferred.

5. The budget I prepared in March utilized \$250,000 as a revenue source from fund balance.

The H&P budget contains \$1,400,000 from fund balance. It is recommended that \$1,006,660 come from the existing General Fund-fund balance and \$393,340 from unspent FY16/17 BOE funds that were scheduled to go into the BOE 1% fund.

Many have advocated for the use of fund balance to a greater extent. The Government Finance Officers Association Recommended Practice for fund balance reserves is for a municipality to maintain an unassigned fund balance at a minimum of either two months operating revenues or operating expenditures. The Unassigned Fund balance for Tolland at June 30, 2016 was \$7,113,653 or 12% and if based on two months operating expenditures, the amount should be \$9,301,097. A \$1,006,660 use of fund balance reduces our fund balance to \$6,106,993 or 10.4%. Fund balance is important to address potential unplanned and catastrophic events which may occur in a given fiscal year. Those who have purchased bonds of the Town want to know there are sufficient reserves to address such issues and still pay for debt service. The greater the comfort investors have, the lower the interest rate on money we borrow for capital projects. A small downgrade in the Town's bond rating can cost a million dollars or more in interest costs over the life of an issuance. If fund balance is used, and at times such as this it is necessary, the key to proper financial management is the plan to replenish the fund to levels previously established. Our current bond rating is AAA which brings us the lowest interest rates on borrowed funds. When our fund balance was at a level of 10.9% in 2007-08, we had a bond rating of AA-, three grades below our current level. We have to be mindful of the importance of maintaining an appropriate fund balance level in future financial management plans to ensure the best rates on borrowed funds and to protect the Town in case of future catastrophic events.

6. Based on this scenario with a 7.17% tax increase, there is no need for further expenditure reductions for either the Town or BOE. The mill rate increase is 2.45 mills.

If the voters reject a 7.17% increase in the mill rate and we go to a 5% increase in the mill rate, it will require a further decrease in expenditures in the amount of \$926,515. This decrease should be split between the Board of Education and the Town on a 80/20% basis. The mill rate increase will be 1.71 mills.

It is important to point out that the fiscal concerns we are feeling today carryover into the next fiscal year and beyond. One time use of reserve funds and continued erosion of grant sources along with reasonable expenditure increases may cause higher than normal mill rate increases in subsequent fiscal years. Using as an assumption for FY18/19, no further reductions in ECS for the following fiscal year, a return to use of fund balance at the \$200,000 level, a flat Grand List, a known reduction in a bond reimbursement by the State which is expiring and increases of 2.14% for BOE, 2% for the Town and 1% for capital would result in a 6% increase in taxes or 2.20 mills. Potentially over two fiscal years the mill rate could go from the current 34.19 mills to the 38 mill range.

7. If the H&P budget is adopted and the State budget, when approved, provides us with more revenue than anticipated the following is recommended in this priority order:

- ✓ The money taken from the General Fund-fund balance shall be replenished.
- ✓ The money that was requested to go to the BOE 1% reserve fund shall be funded.
- ✓ Up to 50% of the remainder shall be set aside as reserved for tax relief in FY 18/19, 19/20, and 20/21 in equal amounts.
- ✓ The remaining additional funds shall be allocated to the BOE and Town on an 80/20% basis capped at the BOE original request amount and the amount of expenditure reductions of the Town as recommended by the Town Manager.

8. If the State budget, when approved, provides us with less revenue than budgeted then the difference would come from decreased BOE and Town expenditures on an 80/20% basis.

9. Should the General Fund-fund balance be utilized in any amount greater than \$200,000 and not be replenished by additional State dollars, any expenditure savings of the Town and BOE in future years shall be returned to the General Fund-fund balance and not placed in any other reserve accounts until such time that the funds are replenished. The goal shall be that the funds shall be replenished in no more than five years and a concerted effort will be made on the part of the BOE and Town to have end of the year savings to use for this purpose. Future use of fund balance as a revenue source shall revert back to our normal of between \$150,000-\$200,000.

10. The proposed mill rate increase of 2.45 mills is 4.75 times the average mill rate increase over the last ten years. The average has been 0.58 mills. This increase is understandable in this budget year and perhaps the next. However, it must be recognized that taxes are a major issue to a large number of residents and if we want to remain competitive with other towns in the regions for real estate, both residential and commercial, we must be mindful of our mill rate in addition to the services offered by the Town and Board of Education. I recognize keeping the mill rate to the historic average will be difficult based on possible continued loss of state funds, increased expenditure needs, health insurance trends based on current experience that are in double digit range, committed to collective bargaining agreements and unknowns regarding utilities, but the current and future BOE and Town Councils should consider this as a stated goal.

Comparison of Mill Rates

Vernon – 38.03	Mansfield – 29.87
Bolton – 37.50	Avon – 29.52
Tolland – 34.19	Suffield – 28.20
Coventry – 31.20	Willington – 27.73
Colchester – 30.91	Columbia – 27.44
Ellington – 30.50	Farmington – 25.78

**TENTATIVE
BUDGET SCHEDULE – 2017 – 2018**

TARGETED TIMELINES

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| August 15, 2017 (Tuesday) | Council Discussion – Budget Finalized – Council Chambers – 7:30 p.m. |
| August 22, 2017 (Tuesday) | Advertise Budget |
| August 29, 2017 (Tuesday) | <u>ANNUAL BUDGET PRESENTATION</u> – THS Auditorium – 7:30 p.m. – BOE is provided an opportunity to present a revised adopted budget based on funding approved by Town Council and other line item updates |
| August 30, 2017 (Wednesday) | Budget Presentation – Senior Center – 12:30 p.m. |
| September 19, 2017 (Tuesday) | Annual Budget Referendum |