

February 9, 2022

Dear Members of the Town Council:

In accordance with the Clinton Town Charter, I am pleased to present the Town Manager's Proposed Budget for fiscal year July 1, 2022 through June 30, 2023. The budget outlines the priorities and plans to provide services to the citizens and taxpayers of Clinton. This budget, which includes the expenditures for town operations, education, debt service, and capital, is proposed at \$59,826,741 which is an increase of \$1,334,178 or 2.28%.

This budget is presented in a time of uncertainty where the pandemic's influence on operations remains as well as risks of inflation, commodity price pressures and insurance cost increases impact how local governments operate. There are some bright spots on the horizon with continued growth in the Grand List generating additional revenue for the Town. At the time of writing this, the State-Municipal Government funding relationship is uncertain until the Governor releases his budget to the General Assembly and the detail can be evaluated.

The Proposed Budget focuses on essential expenditures expected from the Town and represent one set of choices for the Town Council to consider. The budget setting process is one that sets priorities by allocating scarce resources. Scarce resources imply competition and therefore choice. Budget flexibility is likely to be limited, however I believe there are a number of areas which will require Council discussion and policy direction.

#### EXPENDITURE SUMMARY

	Appropriated FY2021-22	Proposed FY2022-23	Proposed Budget Increase/(Decrease)	
Town Government	\$16,603,573	\$17,340,364	\$736,791	4.44%
Board of Education	33,911,057	34,552,204	641,147	1.89%
Debt Service Town Education	2,025,260 3,136,159	2,195,778 2,890,979	170,518 (245,180)	8.42% (7.82%)
Capital Improvements Town Education	2,716,714 99,800	2,501,363 346,053	(215,351) 246,253	(7.93%) 246.75%
<b>TOTAL</b>	<b>\$58,492,563</b>	<b>\$59,826,741</b>	<b>\$1,334,178</b>	<b>2.28%</b>

At the time of writing this message, the Proposed Budget presents best information available. A number of items are in a state of flux. We are waiting for final numbers on a number of costs. Hopefully, these will present an opportunity for further adjustments.

At the Town Manager's level, my budget goals were the same as last year - minimize any tax increase but still address community needs, and provide a fiscally sustainable budget looking toward implementing best practices. For the Town Council's reference, operating expenditures proposed for the Town portion of the budget and all capital have already been reduced by \$805,892 from the submitted department requests - \$52,492 from Operating and \$753,400 from Capital.

#### ***BUDGET CHALLENGES:***

This version of the budget continues the expectation of restrained operating spending, but capital needs and deferred maintenance remain a significant challenge. The Town Manager's Proposed Budget focuses on what is necessary to deliver core municipal services. This is also an honest budget capturing known costs and using the best available information to set priorities. As a funding plan, the Town Council should take note of the challenges and priorities that went into shaping this document. I want to convey to the Council the outside influences that the budget must respond to. Factors shaping the budget include:

- Town Planner: As requested by the Council, this version of the budget proposes to re-introduce the Town Planner position with a market rate salary and associated benefit expenses. This will mark a change in service levels moving away from a consulting planner with limited hours, to a full time Town employee.
- Increase in MSW Tip Fee: The cost for municipal solid waste removal is assumed to increase in the next fiscal year. The Materials Innovation and Recycling Authority (MIRA) forecast a tip fee increase which has municipal solid waste shipped out of the State of Connecticut to be landfilled in western states. The policy direction at present from the State focuses on increasing recycling but a robust market for recyclables does not exist and opportunities to divert waste have to be discussed in detail to have a viable business model for the future.
- Increase in Risk Management: The budget anticipates an increase in some of our insurance costs as the market for liability coverages is hardening and cyber insurance is becoming more difficult to procure given general increases in cyber attacks to business entities (public and private sectors). Health insurance is also projecting an increase.
- Capital Expenditures: A number of large capital projects are included in the budget. The radio system replacement is a significant cost again. The current system is not covered by the manufacturer anymore which raises the risk of losing dispatch and radio communication between Police, Fire and Public Works. The budget continues the practice established recently to fund reserve accounts to meet the Fire Department vehicle replacement plan and local road paving. Deferred maintenance, sidewalk repair and equipment replacement are included as priority expenditures.
- Use of Fund Balance: Appropriated fund balance has been applied to reduce the net tax impact of capital projects. This approach is part of a strategy to keep fund balance at an amount necessary to preserve the Town's bond rating and not place a burden on the taxpayer. As was the case last year, the additional use of fund balance is being run through the budget rather than appropriated outside of the annual budget. The budget assumes a slow use of fund balance to make sure we can address capital needs over a longer period of time and have the option to use fund balance over several budgets.



As a service-based organization, the majority of the Town Government Operating Expenses are tied to direct delivery of services utilizing employees or through contracted relationships.

#### TOWN GOVERNMENT OPERATING BUDGET COST CENTERS

Activity	FY2021-22 Budget	FY2022-23 Proposed Budget	Percent Change
Govt. Administration	\$1,993,076	\$2,041,493	2.43%
Land Use & Development	508,541	559,849	10.09%
Protection & Emergency	4,095,122	4,235,402	3.43%
Public Works & Facilities	3,136,178	3,210,046	2.36%
Recreation & Human Services	643,838	687,605	6.80%
Library	769,246	820,319	6.64%
Insurance & Benefits	5,131,920	5,615,600	9.42%

#### **DEBT SERVICE:**

Debt service includes expenses associated with interest and principle payments for bonded debt issued for the Town and Board of Education as well as capital leases which have been used to finance equipment purchases. Combined Debt Service for the Town and Board of Education is proposed to be funded at \$5,086,757 which is an overall decrease of (\$74,662) or (1.45%) compared to FY21-22. Thanks to recent refunding opportunities, the Town was able to reduce its peak long-term debt.

#### DEBT SERVICE COMPARISON

	FY2021-22 Budget	FY2022-23 Proposed	Difference	% of Total Debt
Town Debt	\$2,025,260	\$2,195,778	\$170,518	43.17%
School Debt	3,136,159	2,890,979	(245,180)	56.83%
<b>TOTAL</b>	<b>\$5,161,419</b>	<b>\$5,086,757</b>	<b>(\$74,662)</b>	<b>100.00%</b>

Debt Service is starting to level off which can improve future budget flexibility. Additional projects for future bond authorizations could also be evaluated as the amortization curve starts to drop.

The practice of lease-purchases for Police rolling stock ended and the cost of vehicle replacement is now included in the Capital Plan. It makes more sense to fund these vehicles on a pay-as-you-go basis considering the life of the vehicle and the cost to lease. Public Works equipment leases will continue to carry out to 2026 and 2029. The Fire Department is interested in a lease-purchase for its vehicle replacement needs. As these vehicles have a much longer service life, there may be some value in leasing such vehicles or a hybrid of existing capital reserve funds and future debt service.

### ***CAPITAL EXPENDITURES:***

Critical investments in the Town's infrastructure must still be made. Maintenance cannot be deferred indefinitely. Higher priority needs have been placed in the capital plan for FY22-23. Appropriated fund balance has been used in this budget to finance certain capital expenses as part of a one-time use of fund balance to adjust our reserve levels and address large expense items (that might have been financed as debt in prior years). Some significant capital priorities include:

1. Continue Funding for Fire Apparatus Reserve – This budget continues a reserve within the Capital Fund to fund Fire Department apparatus replacements. As the rolling stock for the Fire Department ages and reaches the end of its service life, the Town needs a sustainable plan to address apparatus replacement needs without creating shocks to the budget and taxpayer.
2. Continue Funding for Paving – Funding for paving has been included in the capital budget to support on-going needs for road repair in the Town. Previously, this expense has been financed through bonds creating long-term fixed liabilities for the Town. The useable life of the road surface roughly mirrors the amortization period of the bonds, which leave the town with no residual value to support the cost of bonding road work.
3. Radio System Replacement – As noted last year. The current system the Town relies on to dispatch public safety has reached the end of its service life. The equipment is no longer supported by the manufacturer which raises concerns over system reliability as replacement parts or equipment spares become scarce and added liability risk. The budget continues to assume funding for a system that would replace current dispatch equipment and radios while connecting to the State IT "backbone" which creates a degree of "future-proofing" for the system.
4. Library Capital Needs – The Plan assumes investments in the Library building. The building is owned by the Town and as such major repairs need to be budgeted. In this case, the parking lot needs to be re-built and a roof treatment is needed to extend the life of the existing membrane roof.

### ***USE OF FUND BALANCE FOR CAPITAL***

Given the number and significance of one-time capital expenses, the budget proposes a sizeable use of appropriated fund balance as a revenue source to finance projects. Prior to the change in the form of government, fund balance was also used to fund selected capital expenses but it was done outside of the annual budget process. Incorporating the fund balance revenue and capital expenditure in the budget is a more honest approach to reflecting the full expenditures of a given fiscal year.

While the fund balance exists at levels above our fiscal policy, the determination was made to use this resource over time and bring the fund balance in line with policy over several years. The table below compares the use of appropriated fund balance (or “paid for by cash” as was used in the past) as a budget revenue to offset capital expenses in terms of amount and the percent of total capital expenses funded by current year taxation.

	<b>Total Capital</b>	<b>Amount Financed by Fund Balance</b>	<b>Amount Financed by Taxation</b>	<b>Percentage</b>
FY20-21	\$1,359,451	\$825,000	\$534,451	39.3%
FY21-22	2,816,514	2,269,800	546,714	19.4%
FY22-23	2,847,416	1,345,000	1,527,416	53.2%

**EDUCATION:**

The Board of Education is requesting \$34,552,204 in funding for their Operating Budget which is an increase of \$641,147 or 1.89% over the FY21-22 approved Budget. For the Council's reference, the Operating and Debt Service budgets for the Board of Education are not adjusted by the Town Manager. The Capital request of the BOE has been reviewed by the Town Manager. Capital funding is requested at \$346,053 or an increase of \$246,253. The Education Capital request was reduced by \$52,200 at the Town Manager level.

The Total Funding Request to support the Board of Education budget is \$37,789,236 or a 1.73% increase.

#### **BOARD OF EDUCATION BUDGET COMPONENTS**

	<b>Adopted FY2021-22</b>	<b>Proposed FY2022-23</b>	<b>Change</b>	
Operating Expenses	\$33,911,057	\$34,552,204	\$641,147	1.89%
Capital Improvements	99,800	346,053	246,253	246.75%
Debt Service	3,136,159	2,890,979	(245,180)	(7.82%)
<b>TOTAL</b>	<b>\$37,147,016</b>	<b>\$37,789,236</b>	<b>\$642,200</b>	<b>1.73%</b>

**REVENUES:**

Sources of revenue for local governments are severely limited by State government. This creates a dynamic where local governments are dependent upon both local property taxation and transfers of State funds in the form of grants-in-aid to support municipal services. State grants-in-aid form the largest source of revenue outside of the local property tax. Given the overall size of state aid in Clinton's budget, the Town's budget is highly sensitive to changes in funding programs.

#### **REVENUE COMPARISON**

<b>Adopted FY2021-22</b>	<b>Source</b>	<b>Proposed FY2022-23</b>
\$5,562,084	State Grants in Aid – Education	\$5,599,872
874,816	State Grants in Aid – Town	914,226
1,348,384	Permit and Fee Revenue	1,577,872
350,000	Appropriated Fund Balance	250,000
2,269,800	Applied Fund Balance	1,345,000
47,931,211	Taxation	50,563,827

At the time of writing, we are waiting for the Governor to release his budget which will give a clearer indication of the level of funding for State grants-in-aid for FY22-23. Decisions that went into the State's biennial budget last year leveled out the Education Cost Sharing Grant to Clinton which was projected to decrease.

Other State grant-in-aid programs have been assumed to be level funded with the exception of the State formula to increase Payments in Lieu of Taxes (PILOT) for State-owned properties. Leading up to the FY22-23 local budget, Governor Lamont announced that he will be seeking a lower mill rate cap on motor vehicles to 29.00 mills as a tool to provide a degree of real estate tax relief to residents of the State. The resulting loss in local revenue is supposed to be made up by State funding back to cities and towns. The details of this proposal and its longevity will need to be assessed. Any net loss of state aid will shift the burden to local tax dollars to support operations.

This budget assumes strong Clinton-based revenue in the form of permits and fees. Total user fee revenue is proposed to increase based on increased activity and revenue generation. The budget also includes new revenue generated by Fire Marshal plan review fees to help fund the cost of that activity. Additionally, the General Fund is recognizing revenue generated by shell fishing permits. The intent is to appropriate that revenue annually as a way to reduce the taxpayer subsidy of purchasing shellfish stocks that help support shell fishing.

As was noted above, the use of appropriated fund balance was increased in this budget to lower the tax impact of capital projects. Additionally, applied fund balance, which has been used in the past for mill rate reductions, was decreased by \$100,000 and returned this source of revenue to levels normally seen. A one-time increase was used last year to help smooth out the impacts of revaluation.

Finally, this budget will realize continued growth in the Grand List as of October 1, 2021. This budget is built assuming a 3.0% increase in the Grand List. It should be noted that the budget is being presented before the Board of Assessment Appeals meets in March and I discounted the growth in the Grand List so as to not count for revenue which may go unrealized based on Board adjustments.

#### ***MILL RATE:***

Overall, growth in the Grand List is positive news for the Town. With the growth in the Grand List, the budget assumes that 1 mill is equal to \$1,700,219 in tax revenue. This amount may change after the Board of Assessment Appeals completes its work in March.

One challenging aspect of Grand List growth is that it moves the proverbial “goal post” in the size of budget changes necessary to impact the mill rate. The mill rate is adjusted in increments of 0.01 mills. To impact the rate of taxation, the Town Council will need to make budget amendments in increments of \$17,002.

Growth in the Grand List generates an additional \$1,455,972 in revenue at the current (FY21-22) mill rate.

**The mill rate to support the proposed budget and its assumptions is 30.10 – an increase of 0.27 mills or 0.91% over the FY21-22 mill rate of 29.83. While an increase, this rate is still lower than the FY20-21 mill rate which was 31.25.**

## MILL RATE DISTRIBUTION

### HOW AVERAGE TAX BILL REVENUE IS SPENT

Service	Amount	Percentage
Govt. Administration	\$224.17	3.41%
Land Use & Development	61.79	0.94%
Protection & Emergency	465.43	7.08%
Public Works & Facilities	353.02	5.37%
Recreation & Human Services	75.60	1.15%
Library	90.06	1.37%
Capital and Debt Financing	871.69	13.26%
Non-Departmental (Benefits, Insurance, Other)	635.69	9.67%
Education	3,796.39	57.75%
<b>TOTAL</b>	<b>\$6,573.84</b>	<b>100.00%</b>

***CONCLUSION:***

Difficult decisions went into the budget to balance our fiscal reality with budget requests. Difficult decisions will lay ahead for the Town Council in its deliberations to develop a fair budget and tax rate. At this point in the budget process, the budget stops being a staff-developed document and it becomes the Town Council's budget and primary policy document. Since resources remain limited, the Town Council must view the budget as a priority-setting process.

In closing, I would like to thank the staff that has worked with me during this budget process. It is impossible to describe the effort and energy needed to produce a document such as this. Without exception Town Departments Heads were reasonable in their requests and demonstrate a clear understanding of the need to manage spending levels in the face of fiscal challenges. They made a sincere effort to respond to our current economic reality and their efforts at cost containment or reduction deserve to be recognized.

I hope you will find this proposed budget for the 2022-23 fiscal year to be a helpful starting point for policy decisions and setting funding priorities. I look forward to the opportunity to work with the Town Council as you review, refine and revise this document as well as ultimately implementing your decisions.

Sincerely,

Karl F. Kilduff  
Town Manager