

February 9, 2021

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, 2021 through June 30, 2022. 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 \$59,012,976 which is an increase of \$2,733,388 or 4.86%.

This budget is presented in a time of uncertainty where revaluation will be implemented and post-pandemic operations are uncertain in many aspects of how local governments will operate and generate revenue. This budget follows a conscious decision to prepare the FY20-21 budget with a 0% tax increase anticipating negative effects of the COVID-19 economy. Disruptions to the "normal" flow of operations were tied to Executive Orders issued by the Governor during the pandemic. Some of those changes may be codified into State law which create new opportunities. However, the pandemic has put extraordinary pressure on many residents given impacts to businesses and employment.

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 FY2020-21	Proposed FY2021-22	Proposed Budget Increase/(Decrease)	
Town Government	\$16,480,935	\$16,625,779	\$144,844	0.88%
Board of Education	33,200,391	34,171,057	970,666	2.92%
Debt Service				
Town	2,282,044	2,025,259	(256,785)	(11.25%)
Education	2,956,767	3,136,159	179,392	6.07%
Capital Improvements				
Town	945,325	2,716,714	1,771,389	187.38%
Education	414,126	338,007	(76,119)	(18.38%)
<b>TOTAL</b>	<b>\$56,279,588</b>	<b>\$59,012,976</b>	<b>\$2,733,388</b>	<b>4.86%</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 healthcare expenses, pension and liability insurances. Hopefully, these will present an opportunity for further adjustments.

At the time of writing this message, we are waiting for Governor Lamont to release his budget which will better inform state aid to municipalities. Given the economic uncertainties around pandemic recovery, continued support for local governments will help stabilize local economies.

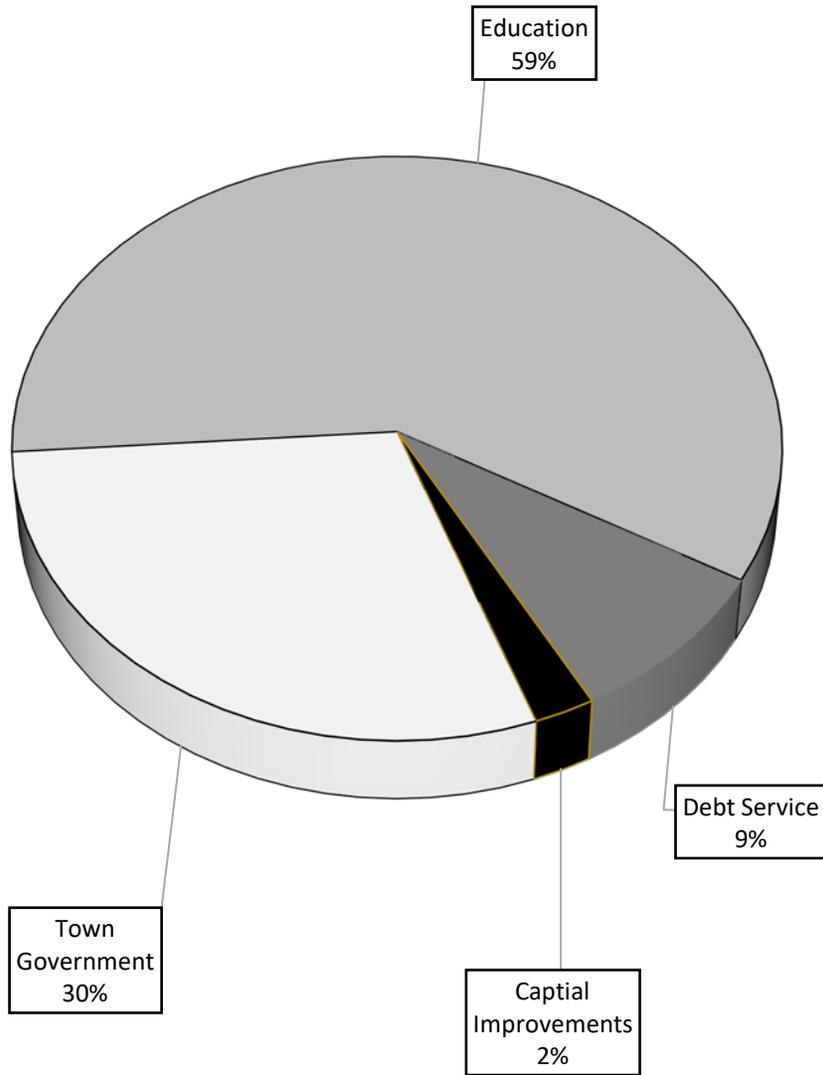
At the Town Manager's level, my budget goals were the same as last year - minimize any tax increase but still address community needs, and provide a fiscally sustainable budget looking toward implementing best practices and long-term needs. For the Town Council's reference, operating and capital expenditures proposed for the Town portion of the budget have already been reduced by \$1,023,708 from the submitted department requests - \$315,958 from Operating and \$707,750 from Capital.

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

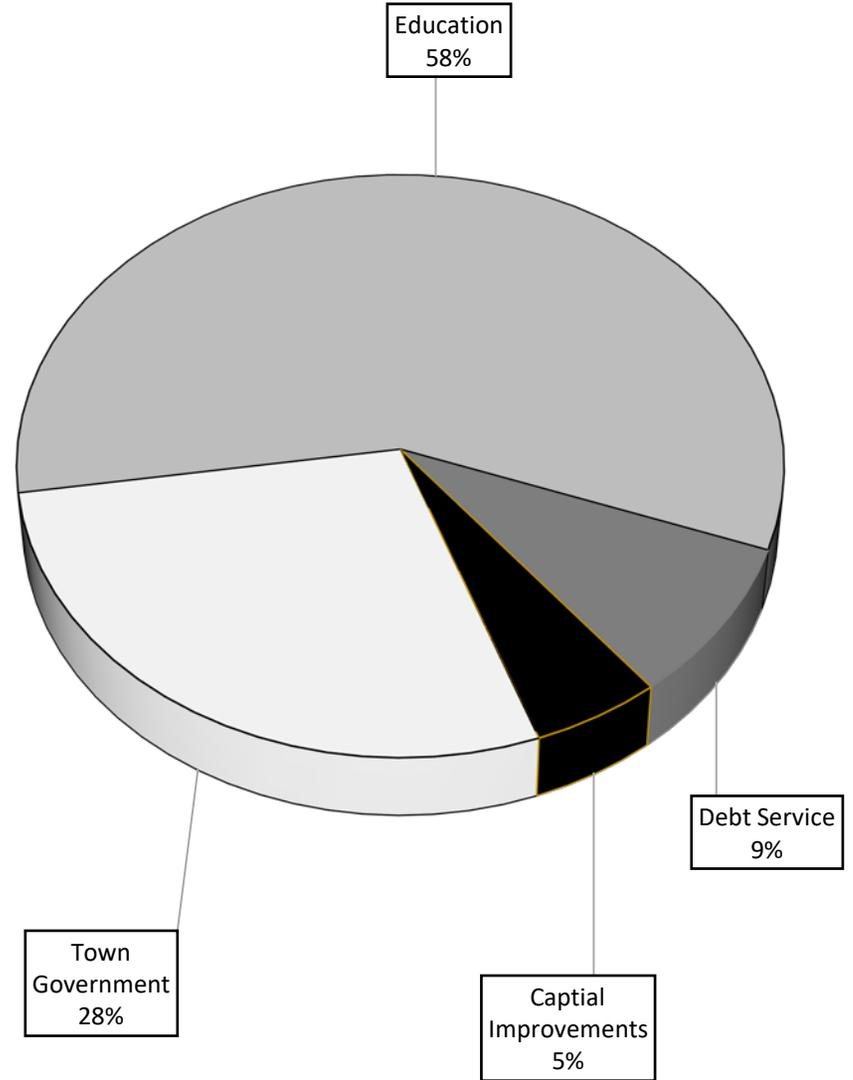
This version of the budget continues the expectation of restrained operating spending, but capital needs and deferred maintenance remain a significant challenge. The Town Manager's Proposed Budget focuses on what is necessary to deliver core municipal services and moves toward creating a sustainable service delivery system. 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:

- Reduction in State Grants-in-Aid: The State budget remains an area of great uncertainty. The budget assumes a continued reduction in the Education Cost Sharing (ECS) grant. In advance of releasing his budget, Governor Lamont has made references to making municipalities "whole" but how that will be delivered is unclear. The other state revenue lines have been assumed at last year's levels.
- Debt Management: Reductions in total debt payments were achieved with an opportunity to refinance older debt. It also presented an opportunity to take out some of the debt spike as FY21-22 was projected to be a peak year in debt payments. This budget marks a change in operating practice from prior years by ending the practice of capital leases for vehicles and moves to a pay-as-you-go structure. Existing leases still need to be paid, but new costs for vehicles are in the capital budget. Police vehicle leases will be retired in 2023. Long-term leases for Public Works equipment will continue to carry out to 2026 and 2029. based on refinancing.
- 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 series of tip fee increases including a fee on recyclables. Policy direction from the State is still being worked on for the future of solid waste in the State. Changes will come over time making it difficult to project where waste expenses will go.
- Capital Expenditures: A number of large capital projects are included in the budget. Costs associated with police dash/body cameras are part of a State mandate on all municipalities. The radio system replacement is a significant costs and 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 last year to fund reserve accounts to meet the Fire Department vehicle replacement plan and local road paving.
- 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.

# ADOPTED BUDGET FY2020-21



# PROPOSED BUDGET FY2021-22



As a service-based organization, it should come as no surprise that the majority of the Town Government Operating Expenses are tied to direct delivery of services utilizing employees or through contracted relationships. Direct personnel expense is budgeted to total \$11,588,863 or 69.70% of the Town's operating expense. This budget assumes a downward adjustment in head count to reduce costs. As the Council is aware, during the year requests were made for staff to coordinate senior services and to provide business support. Those additions to FTE count (0.58 FTE) were cushioned by reducing one full time position with benefit costs.

**TOWN GOVERNMENT OPERATING BUDGET COST CENTERS**

<b>Activity</b>	<b>FY2020-21 Budget</b>	<b>FY2021-22 Proposed Budget</b>	<b>Percent Change</b>
Govt. Administration	\$2,546,204	\$2,486,820	(2.33%)
Land Use & Development	606,363	579,720	(4.39%)
Protection & Emergency	4,000,671	4,110,774	2.75%
Public Works & Facilities	2,817,237	2,714,281	(3.65%)
Recreation & Human Services	609,573	643,838	5.62%
Library	769,246	769,246	0.00%
Insurance & Benefits	5,131,641	5,321,100	3.69%

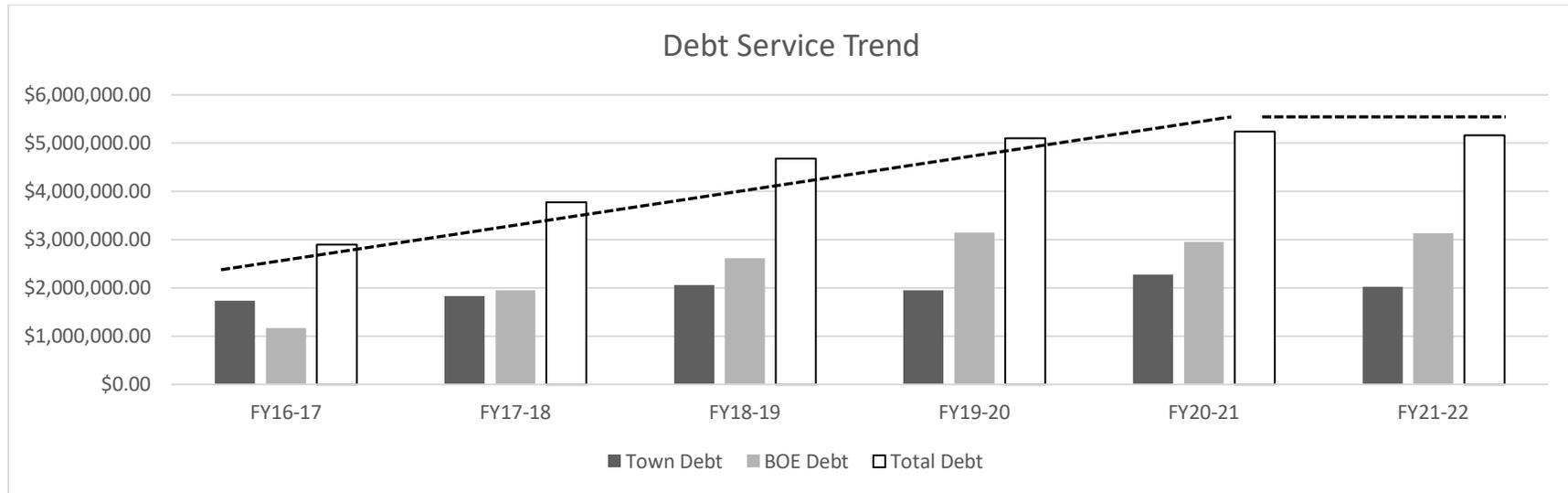
**DEBT SERVICE:**

Debt service includes expenses associated with interest and principle payments for bonded debt as well as capital leases which have been used to finance equipment purchases. Total Debt Service for both the Town and Board of Education is proposed to be funded at \$5,161,418 which is an overall decrease of \$77,393 or (1.48%) compared to FY20-21. Thanks to a refunding opportunity during 2020, the Town was able to reduce its peak long-term debt. Short-term debt in the form of Bond Anticipate Notes for voter approved projects were secured at historically low rates.

**DEBT SERVICE COMPARISON**

	<b>FY2020-21 Budget</b>	<b>FY2021-22 Proposed</b>	<b>Difference</b>	<b>% of Total Debt</b>
Town Debt	\$2,282,044	\$2,025,259	(\$256,785)	39.24%
School Debt	2,956,767	3,136,159	179,392	60.76%
<b>TOTAL</b>	<b>\$5,238,811</b>	<b>\$5,161,418</b>	<b>(\$77,393)</b>	<b>100.00%</b>

Debt Service is starting to level off which can improve future budget flexibility. To help maintain flexibility, this proposed budget ends the practice of new capital leases for equipment and marks a return to pay-as-you-go and requires the budget discipline that comes with it.

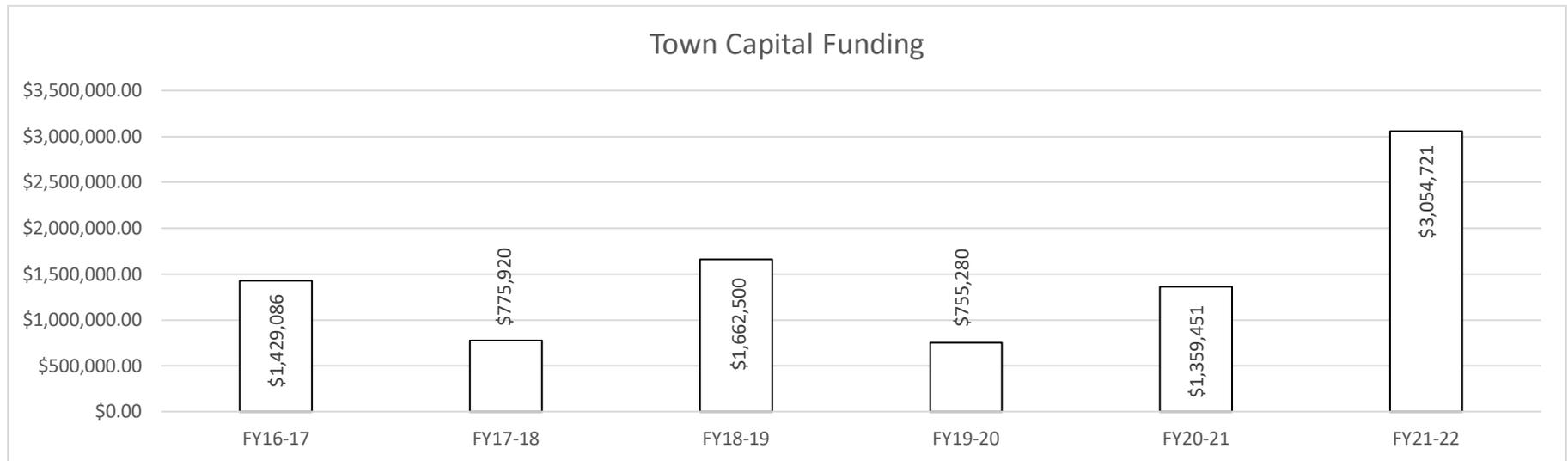


#### **CAPITAL EXPENDITURES:**

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 FY21-22. 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 – Established last year, 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. The cost of fire equipment is such that it ideally should not be funded at the time of immediate need. Capitalization of the reserve is proposed to be funded by an appropriation from fund balance.
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. Police Body and Vehicle Cameras – As part of the Police Accountability law passed by the General Assembly in a 2020 Special Session, a new mandate was placed on local governments to require police departments to assign body cameras and vehicle dash cameras to record officer interactions. The mandate sets a requirement for cameras to be in place by July 1, 2022. The law does not seem to allow for a phase-in. The budget assumes that the Town will have to fund 100% of the cost for camera purchases. The State does have a grant program that would only cover 30% of cost, but that program (at the time of writing) is underfunded to respond to every town implementing the mandate.

4. Police Vehicles – The budget ends the practice of using a lease purchase to upgrade Police vehicles and starts the practice of financing police vehicles on a pay-as-you-go basis rather than through financed money (with an interest rate expense). This is a more efficient use of local tax dollars.
5. Radio System Replacement – The current system the Town relies on to dispatch public safety and communicate between Police, Fire and Public Works 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 assumes 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. Given the size of the project, the budget proposes to have this cost covered by an appropriation from fund balance.



**USE OF FUND BALANCE FOR CAPITAL**

Given the number and significance of one-time capital expenses, the budget proposes a larger than normal use of appropriated fund balance as a revenue source to finance projects. The capital needs coincide with recent growth in the fund balance. As a result, the capital plan for FY21-22 assumes a drawdown in fund balance to bring it down to levels which preserve the Town’s bond rating, but allow for projects to move forward with a reliance on bonding for large expense items. 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.

	Total Capital	Amount Financed by Fund Balance	Amount Financed by Taxation	Percentage
FY20-21	\$1,359,451	\$825,000	\$534,451	39.3%
FY21-22	\$3,054,721	\$2,269,800	\$784,921	25.7%

**EDUCATION:**

The Board of Education is requesting \$34,171,057 in funding for their Operating Budget which is an increase of \$970,666 or 2.92% over the FY20-21 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 \$338,007 or a decrease of \$76,119. The Education Capital request was reduced by \$60,000 at the Town Manager level.

The Total Funding Request to support the Board of Education budget is \$1,056,125 or a 2.89% increase.

**BOARD OF EDUCATION BUDGET COMPONENTS**

	<b>Adopted FY2020-21</b>	<b>Proposed FY2021-22</b>	<b>Change</b>	
Operating Expenses	\$33,200,391	\$34,171,057	\$970,666	2.92%
Capital Improvements	414,126	338,007	(76,119)	(18.38%)
Debt Service	2,956,767	3,136,159	179,392	6.07%
<b>TOTAL</b>	<b>\$36,571,284</b>	<b>\$37,645,223</b>	<b>\$1,073,939</b>	<b>2.94%</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, which is led by the Education Cost Sharing (ECS) grant. 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 FY21-22. Budget history and State funding formulas were projecting a decrease in ECS by \$260,000. That assumption was built into this budget. Other State programs have been assumed to be level funded. This will result in a loss of state aid and the need for local tax dollars to support operations.

**REVENUE COMPARISON**

<b>Adopted FY2020-21</b>	<b>Source</b>	<b>Proposed FY2021-22</b>
\$5,562,084	State Grants in Aid – Education	\$5,302,084
874,332	State Grants in Aid – Town	874,382
1,164,150	Permit and Fee Revenue	1,348,384
250,000	Appropriated Fund Balance	350,000
825,000	Applied Fund Balance	2,269,800
\$47,605,410	Taxation	\$49,283,953

This budget assumes a recovery in Clinton-based revenue in the form of permits and fees. During the FY20-21 budget process, a number local revenue sources were reduced in anticipation of pandemic-related impacts to the economy based on prior recessions. As vaccinations are coming on line, there is an opportunity for a “return to normal”. As a result, some of those revenue lines have been increased – but not up to historical peaks given continued economic uncertainty.

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 also increased for the year where revaluation is implemented to further cushion local taxpayers.

Finally, this budget will see the real estate revaluation for October 1, 2020 implemented. Before consideration by the Board of Assessment Appeals, the Grand List saw an increase of 5.7%. As this budget is being presented before the Board of Assessment Appeals meets in March, I have made an assumption to discount the growth in the Grand List so as to not count for revenue which may go unrealized based on Board adjustments. Even with the assumed discount to the Grand List, the mill rate is projected to decrease.

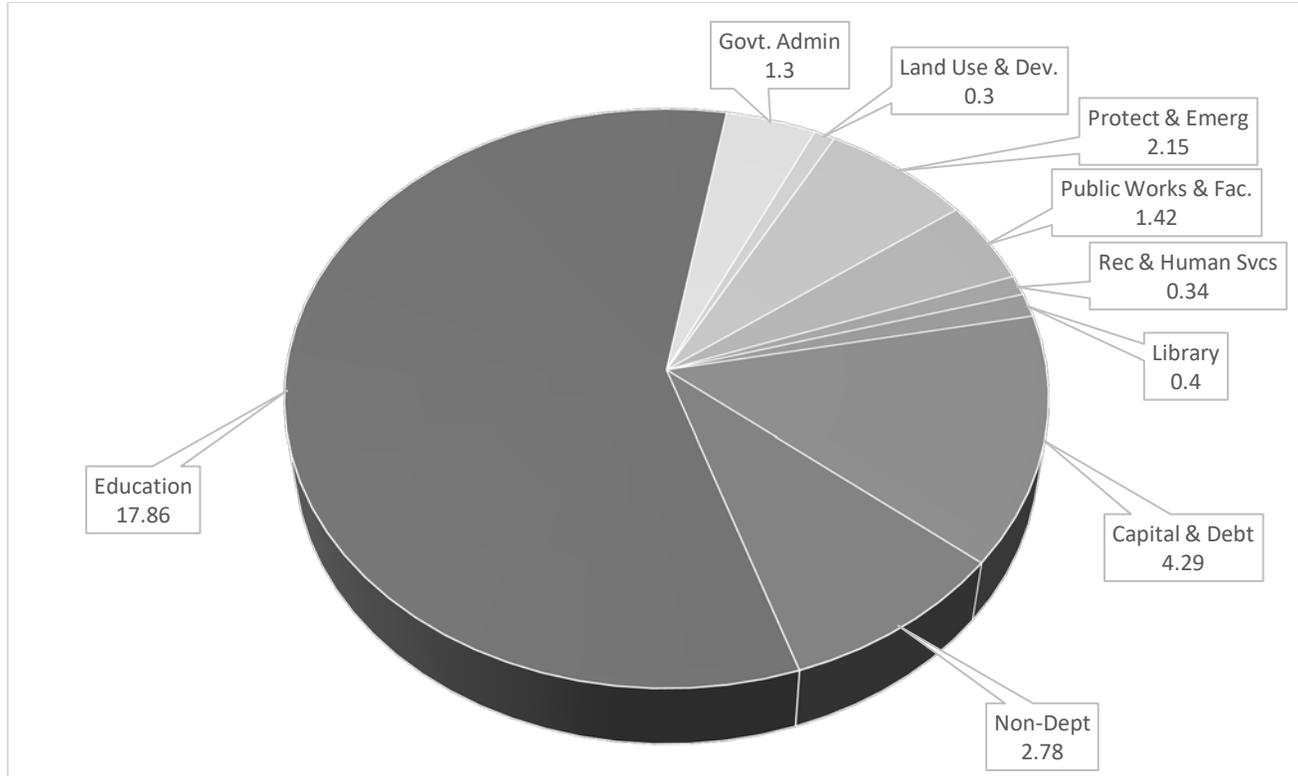
My concern remains over the net tax increase based on higher values. That impact needs to be part of our discussions on reaching a reasonable rate of taxation for FY21-22 and policy direction to further reduce expenditures.

***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 \$1,618,172 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 \$16,182.

In a revaluation year, it is hard to focus on one overall average taxpayer to determine budget impact as values will have changed based on home type and neighborhood based on increases in market values. The mill rate of 31.25 for FY20-21 was unchanged from the rate for FY19-20. The mill rate to support the proposed budget and its assumptions is 30.84 mills – a reduction of 0.41 mills or 1.31%.

### MILL RATE DISTRIBUTION



### HOW AVERAGE TAX BILL REVENUE IS SPENT

Service	Amount	Percentage
Govt. Administration	\$291.52	4.22%
Land Use & Development	67.70	0.98%
Protection & Emergency	481.50	6.97%
Public Works & Facilities	317.78	4.60%
Recreation & Human Services	75.30	1.09%
Library	89.81	1.30%
Capital and Debt Financing	962.31	13.93%
Non-Departmental (Benefits, Insurance, Other)	622.42	9.01%
Education	3,999.82	57.90%
<b>TOTAL</b>	<b>\$6,908.16</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 2021-22 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