

March 19, 2009

Dear Town Council:

It is under extremely difficult financial conditions that I submit my recommended budget for the Fiscal Year 2009-2010. The format of the budget has been revised to meet Government Finance Organization requirements. The budget continues to serve as a policy document, a financial plan and a means to educate and inform the residents of the Town as to where the resources of the Town are allocated and what the Town does with the resources it is given.

The residents of our town, state and nation are feeling the impacts of a depressed economy. We are witnessing increased foreclosures, higher local unemployment rates with the State of Connecticut expected to suffer 60,000 to 80,000 job losses over the next several years, a slumping housing industry and weakened financial markets impacting our personal investments. These are all factors affecting consumer confidence which is at an all time low. I have certainly been cognizant of the economic climate which we are facing in my preparation of this budget. Each year the Town and the Board of Education have legitimate needs, the cost of which grows faster than the community's grand list growth. While I could fully justify presenting you a budget with a much higher expenditure request, the impact on the residential taxpayer would be unacceptable. **Therefore, I see as part of my responsibility as Town Manager, to present to you a budget which in these economic times continues basic services, both in the Town as well as the Board of Education, while at the same time allows for a slight decrease in the property tax rate.**

This budget is not constructed so that it can withstand additional reductions without further program implications. Town programs and line items have been reviewed numerous times over the last several months in an effort to minimize expenses. In light of increases in most of the commodities required for us to perform our job, it is a tribute to Town Staff that this budget has been prepared so that no increase is required in Town expenditures. **In fact, Town expenditures as a whole have decreased by -2.4% and the overall budget has decreased by -.87% or \$429,900.** As you review my budget recommendations, you will see in a number of different areas reductions in either department requests for additional dollars to maintain existing programs or reductions in personnel or alterations in existing programs made necessary by the economic conditions.

**The recommended tax rate to support the budget is 29.49 mills which represents a decrease of .02 mills or -.07% over the current General Fund mill rate.**

The Town's grand list growth of .81% is the second year in which the increase has been at historic lows. Tolland traditionally has seen growth in the 2-3% range. After adjustments for tax collection rate and new mill rate, additional Town revenue from grand list growth is \$185,566. All indications are that absent a dramatic change in the economy, this type of grand list growth will be the norm for at least the next year. Any growth in the real estate portion of the grand list has been significantly impacted by a reduction in the value of the motor vehicle portion of the grand list.

It would be unrealistic to expect over the next two fiscal years any additional growth in state aid to lessen the burden on our local taxpayers, who are already overburdened by reliance on property tax as the main source to fund municipal expenses. The State of Connecticut is facing an estimated deficit in this fiscal year of \$1.35 billion and over the next two fiscal years a deficit in the amount of \$8.5 billion, which would be 24.2% of the State budget. The Governor has recently announced her recommendation for aid to municipalities. The Governor's budget as proposed, will level fund all major education and non-education grants for each year of the biennium. **However, State surplus money was used in the past biennium to supplement**

**state general fund appropriations for non-education grants, with the result being an actual reduction of \$124,729 overall in state aid for the next fiscal year.** In terms of the major source of state aid for education, the Education Cost Sharing Grant, we received in the current year an additional \$484,764 over fiscal year 07/08. Yearly increases in this grant have helped to offset increases in the cost of education. For the next fiscal year, no increase in the grant amount is programmed over the amount received for the current fiscal year.

The Governor's proposed budget has other financial impacts on Tolland, with the most significant being to increase the Town's share of costs associated with the Resident State Trooper Program from 70% to 85% in the next year and 100% the following year. This is a potential increase in costs to the Town of \$108,338 in the next year and a similar amount the following year. In addition, the School Resource Officer we share with Mansfield may be eliminated. Details of the Governor's proposed budget are still being released and I am sure we will find many of the fees we pay the State increasing. All of these proposals are subject to change as part of the legislative process. Therefore, in my proposed budget I have left the Town's share for the Resident State Trooper Program at the current funding level. Should the Governor's proposal be approved, it would be my recommendation that one State Trooper be eliminated for a savings of approximately \$130,000 which can be accomplished with 30 days notice.

The fiscal crisis we are witnessing is certainly global in nature and one that many economists are saying will take several years to resolve. The American Recovery and Reinvestment Act of 2009, while having the potential to provide additional dollars to the Town, primarily in the area of education, will be of assistance but will not solve our immediate economic concerns. The dollars potentially available to the Town from this program in the current and next fiscal year are estimated to be \$508,000, primarily for special education programs. A major concern is what happens to funding levels after the next fiscal year when the Federal Stimulus dollars are not available.

In Tolland we are facing a revenue shortfall in the current year that is projected as of February 1<sup>st</sup> to be in the range of \$300,000-\$750,000 with the large fluctuation being due to uncertainties pertaining to the tax collection rate. We have been observing for some time lower than anticipated building permit fees, revenue from property conveyance tax, interest income and certain grants related to education. After the completion of the January installment for taxes, we witnessed a rather large number of delinquent accounts attributable primarily to motor vehicle payments. Delinquent notices have been sent out and we are hopeful that many of the delinquent accounts will be paid prior to the end of the fiscal year. The Town as well as the Board of Education have been on a spending freeze for a majority of the current fiscal year and together hope to accumulate sufficient funds to resolve the deficit without having to resort to the use of fund balance. I have been assured by the Superintendent of Schools that the Board of Education will be able to return to the Town at least \$117,266 at the end of the fiscal year to cover shortfalls in education related to grants or other revenue sources. However, based on recent revenue projections, additional assistance will be needed from the Board of Education if we are to make a serious impact on the current year deficit. It is my hope that the Town will be able to contribute \$150,000 towards the revenue shortfall. To that end, I initiated certain personnel actions as follows, to take place prior to the end of the fiscal year in an attempt to accumulate as much current year savings as possible. These personnel actions are built into my recommended budget for the next fiscal year with an annualized savings of approximately \$250,000.

- Close the Teen Center Building and reduce the Teen Center Coordinator's position from five hours per week to three hours per month.
- Eliminate a 7-hour per week Saturday Library Circulation Assistant.
- Eliminate the position of Public Works Coordinator and reclassify the position to a 25-hour per week Solid Waste and Recycling Coordinator at a reduced salary.
- Reduce the Highway Administrative Secretary by five hours per week.
- Eliminate the position of Highway Working Foreman and create a Laborer position.

- Eliminate the 20-hour per week Assistant Town Clerk position.
- Reduce by 10 hours per week the position of Administrative Secretary servicing the Resident Trooper Program and limit the issuance of permits, etc. to designated hours.
- Eliminate all Summer Parks & Facilities help paid out of the General Fund.
- Eliminate the 35-hour per week Administrative Secretary II position in the Planning & Community Development Department.
- Effective July 1<sup>st</sup>, eliminate the 17.5-hour per week Deputy Building Official position.

For the next fiscal year we are anticipating total less revenue than we have for this fiscal year by \$579,900. For the first time in my three years as Town Manager in Tolland, I am recommending the use of fund balance as revenue in the amount of \$150,000. Potential use of fund balance in this current fiscal year and next could bring our overall percentage of reserves as a percentage of expenditures under 10%. It is recommended by our financial advisors and our adopted financial policies to be at 10% or above for fund balance. In future years, efforts should be made to build fund balance back up to acceptable levels. In addition, I am recommending a slightly lower tax collection rate than in previous years to reflect the increased number of delinquent accounts we witnessed in the current year. The rate has gone from 98.7% to 98.6%.

With less revenue coming in and rising expenses in the areas of health care costs, contractually mandated salary increases and certain required commodities, it is necessary in the next fiscal year to either raise taxes or reduce expenditures. Either option is not one that I personally find desirable, but one or both may ultimately be necessary in these extraordinary times. In the budget I am presenting to you, I have chosen to reduce expenditures of the Town as well as the requested increase of the Board of Education in order for there to be no additional tax impact on the residents of this community for the next fiscal year. In my view, residents who are seeing their retirement funds and investments disappear and who are sacrificing daily to make ends meet, cannot at this time be asked to pay more in taxes, whether they be at the local, state or national level. These same residents are finding it difficult to pay existing expenses including their base tax, let alone any increases.

As I have prepared this budget, countless hours have been spent reviewing and prioritizing the various Town programs. The use of the “results budgeting” format that we instituted last year has been helpful to me in reviewing fully all the components of our operation. Sorting out the relative value of public services and rationalizing the reduction of government spending is the most pressing challenge facing us all today. I certainly recognize the pain which many of the reductions will have on Town operations, not only today, but well into the future.

I also recognize the impact which my recommendation to level fund the Board of Education may have on their budget. **The recommended funding level for the Board of Education is \$33,473,797 which is a reduction of \$680,744 from the amount requested.** Throughout my career, I have been a strong supporter of a sound education system that can properly prepare our children to compete in this global economy. However, all organizations, public and private, are being forced by the economic conditions to reshape the way they deliver their services. With decreased revenues and no increase in the property tax, expenditure levels must be reduced in order to balance the budget. We must all find ways to provide those basic services expected by our residents in a less expensive manner since revenues for at least the next two fiscal years will not be available to maintain business as usual. The increase in the mill rate necessary to adopt the funding level recommended by the Board of Education of 2.03% (recently reduced as a result of decreased cost of medical insurance renewal rates and lower than anticipated prices for fuel oil and diesel) as well as the Town at the pre-budget planning level of 1.5% would be 3% (or .89 mills). For a home assessed at \$206,500, (which is the average assessment in Tolland) and a current market value of \$350,000, the tax increase in dollars would be \$184 on a current payment of \$6,094.

By State law I, as well as the Town Council, cannot make specific reductions to the Board of Education budget. The reduction which I have made is to the bottom line of the overall Board of Education budget. To significantly close the gap between that which was requested by the Board of Education and that which I am recommending, I offer the following suggestions:

- Use of money from the American Recovery and Reinvestment Act of 2009 estimated to be approximately \$508,000 combined for the current and next fiscal year to be used to fund special education programs.
- Possible dollars from the Federal Fiscal Stabilization Fund from which the State of Connecticut is eligible to receive \$545 million.
- Possible reductions in utility accounts which over the last two years have resulted in large surpluses. I would reiterate a recommendation I made previously, to create a Town-wide utility account and to have an audit performed to determine the base level necessary to fund Town/Board of Education utilities.
- Possible savings from renegotiated employee contracts.
- Possible savings from prefunding Post Employment Benefit obligations.
- Possible additional savings from retirements and the hiring of new teachers at a lower rate.
- Possible savings from self-insuring dental coverage.

Reductions of the magnitude which I am recommending, must in some way impact programs. However, possible implementation of some of the above mentioned suggestions should help to mitigate any negative impact. Public officials throughout the nation are having to balance their respective budgets while keeping taxes to a minimum while making every effort to keep important programs in place. Tolland is no different in this regard.

The Board of Education originally was scheduled to include within their budget request an amount of \$220,000 to fund costs related to the second year of a three-year phase-in of costs associated with Other Post Employment Benefits (OPEB). This funding requirement comes from recommendations promulgated by the Government Accounting Standard Board and the Code of Professional Conduct of the American Institute of Certified Public Accountants. Last year the Town Council and Board of Education agreed on a three-year phase-in approach of this liability. Over the last several weeks I have had continued discussions with our Financial Advisors, Town Auditor and the consulting firm of Milliman who performed the actuarial study for the OPEB liability as to whether the obligation could be phased-in over five years without a negative impact on our bond rating. A five-year phase-in is deemed acceptable and continues to demonstrate to the financial rating institutions an on-going commitment of the Town and Board of Education toward this funding requirement. Therefore, for the next fiscal year the Board of Education should include within its budget \$95,060 for this requirement. Should the Board of Education be able to find money within their existing budget from fuel savings or other areas to pre-fund their next year's OPEB requirement, this may further reduce the impact of my reduction in the next fiscal year. I do caution, however, that by prefunding this expense, a significant on-going expenditure would not appear within the expenditure side of the Board of Education budget. This obligation increases each year, to an amount well over \$400,000 per year by 2013/14.

Significant adjustments were made in a number of areas in order for Town Departments to have expenditure levels in the next fiscal year below those of the current fiscal year. Adjustments include the following (some of the adjustments were identified earlier in this message when speaking of current year personnel adjustments):

<b>Description – Operating Budget</b>	<b>Amount</b>
• Reduce contribution to the Sewer Fund	\$ 5,000
• Reduce payments for unused vacation for unaffiliated employees	5,000
• Close Teen Center and reduce Teen Center Coordinator hours	9,013
• Savings from change in health benefit platform and increased co-pay for unaffiliated employees	58,000
• Salary savings attributable to a wage freeze for unaffiliated employees	55,326
• Eliminate the 35-hour Admin. Sec. II position in the Planning Dept. (salary & benefits)	56,505
• Eliminate the 17.5-hour Deputy Building Inspector (salary & benefits)	29,444
• Reduce to 25 hrs. the Public Works Coordinator and reclassify the position to Solid Waste Recycling Coordinator at a reduced salary (salary & reduced benefits)	45,958
• Eliminate the 40-hour Working Foreman in Highway and replace with Laborer position (salary & reduced benefits)	17,295
• Reduce Admin. Sec. II in Highway to 4 hours	4,408
• Eliminate 7-hour Library Circulation Assistant working on Saturdays	6,483
• Eliminate 20-hour Assistant Town Clerk (salary & benefits)	20,526
• 10% of Assistant Director salary to be paid from the Rec. Fund	5,000
• Reduce Admin. Sec. I in Law Enforcement to 25 hours from 35 hours (salary & reduced benefits)	11,518
• Cut all (7) Summer Employees in Parks	43,004
• Cut (4) sets of Fire Gear and (2) sets of helmets in the Fire budget	8,900
• Reduce Fire Volunteer Reimbursements based on revised estimates	2,000
• Cut Fire Volunteer Training	3,550
• Information Technology/Communications reduction based on revised contract	20,000
• Library Program Materials reduction	3,495
• Reduce Fertilizer and Pro-Choice Treatment with materials to be provided by Sports Clubs	7,050
• North Central Regional Mental Health Dues eliminated	916
• Tri-Town Emergency Shelter Contribution reduced	2,000
• Visiting Nurses Contribution reduced	1,848
• Savings from Fuel Oil price reduction	34,913
• Savings from Diesel price reduction	46,497
• Eliminate Two Cell Phones for Highway	1,200
• Savings from Gasoline price reduction based on current bid	60,000
• Eliminate DARE and Explorer Programs and reduce associated overtime for State Troopers	8,496
<b>Total</b>	<b>\$573,345</b>

The total amount of the adjustments listed above is \$573,345. These reductions are from current budgeted expenditures, not from new requests for additional spending. The adjustments will have impacts on services in a number of areas from the library to field maintenance, from programs offered to our youth to building inspections.

As part of the Town's efforts to contain costs, the Town Manager and the Administrators of the Town have agreed for the next fiscal year to freeze their salaries and to restructure their health insurance plan. Savings attributable to the action of these employees is in excess of \$100,000. The change in health insurance plans will for the first time introduce the use of Health Savings Accounts. These are high deductible health benefit plans that currently have premiums approximately 20% lower than traditional plans. I wish to commend the employees for their actions and their willingness to show that as leaders of our Town, they fully understand the financial pain being inflicted upon all of us.

As stated above, the Town is fortunate to have a strong cadre of highly qualified and dedicated Town employees. Several years ago we changed the method of compensation for unaffiliated employees to one based solely on merit. Normally I would recommend that merit increases be within a range of 0-4.5% with an average of not more than 3.0% for all employees involved. However, as previously stated, for the next fiscal year, employees involved in this program will have their pay frozen. It is important for succession purposes and for fair compensation that we ensure going forward that our ranges and salaries within ranges are competitive with the general marketplace. Therefore I am recommending that the maximum of the ranges continue to be increased by 2.0% even though the individual salaries are frozen within the range for the next fiscal year.

The Town, as a business, has certain expenses which it must fund in order to provide basic services at levels to which residents have come to expect. On a continuing basis, Town Administrators review the methods in which they provide their services in an effort to be more efficient and cost effective. Some examples are as follows:

1. We are recommending the implementation of single stream recycling which allows for the sorting of recycled materials to be done at the trash plant rather than curbside. This method allows for the use of larger bins or totes which should increase the percentage of recycled materials and thereby saving on our tipping fees for solid waste. In addition, we will be able to accept #3 through #7 plastics. The contractor has agreed to provide the 65 gallon containers to the Town at no additional cost provided the contract for service is extended for three additional years. We anticipate, at a minimum, a 10% reduction in solid waste disposal which will mean a reduction of approximately \$35,000 per year in the disposal fees paid to CRRA.
2. Highway employees have in past years spent several months from April to June sweeping streets. This activity requires the use of two street sweepers which cost in excess of \$170,000 each to replace, which should be done every five to seven years, as well as other employees and trucks hauling the debris away. While engaged in this activity the employees are not available to perform road maintenance and drainage replacement requiring that these services be contracted out. As part of the review of the Public Works Department, it was suggested that the Town explore the possibility of contracting out the street sweeping activity and using Town forces to do some of the road maintenance and drainage work. We have identified a contractor who will do the street sweeping for \$25,000 per year and get the job done in three to four weeks. This will save \$170,000 in the second year of the capital budget for the replacement of a 1995 Elgin Sweeper and allow Town forces to do other more important assignments. Contracted sweeping will take place in the Spring of 2009 and there will be only limited street sweeping this spring by Town employees.

3. We are having on-going discussions with the various sports groups in Town about the need to assume a greater role in the maintenance and preparation of our athletic fields. For the first time the football league will be making a financial contribution to the Town for field maintenance purposes and similarly the soccer and baseball clubs will assist the Town as they have graciously done in the past with field maintenance activities.

Each year there are certain expense drivers, which depending on the level at which they are funded, impact the overall budget differently. For example, the Board of Education’s requested increase of 2.03% alone would require an increase of \$680,744 in the budget. Other potential expense drivers includes increases of between 7-12% for health and life insurance accounts, contractually required salary increases, phased-in funding for the next statistical revaluation, debt service and increases in capital accounts. Adopted increases in these expense drivers require decreases in other areas of the budget when new revenues are not available to cover the additional expense.

Conservative financial management and budgeting have become the norm in this community. However, in recognizing the difficult financial times we are currently facing both locally and nationally, I along with Town staff, have felt it to be our responsibility to limit increases to the absolute lowest levels possible. Certainly, if this type of budget retrenchment takes place on a multi-year basis, there will have to be further adjustments to basic levels of service provided to residents of the community. If it is necessary to reduce further the budget as presented herein, it will be necessary to reduce the level of service provided within cost centers, primarily through further reduction in staff. Funds are no longer available within department line items to reduce without impacting service levels and personnel. Furthermore it should be stressed that this budget each year is built from the bottom up. I do not and never have budgeted based on the assumption that there may be further reductions and thus a necessity to provide a certain cushion within various line items.

All too often in difficult budget years there is a tendency to try and save money by deferring maintenance of facilities and equipment. The Town Council in the current year’s budget demonstrated a commitment to fund capital improvements at a level necessary to ensure that the community’s investment in infrastructure, facilities and heavy equipment is maintained. Failure to continue this commitment on a yearly basis will result in deteriorating facilities and the use of heavy equipment much longer than its useful life. The recommended general fund expenditure for capital improvements of \$204,650 is only 0.4% of the requested operating budget. Due to the economic realities confronting us, I have by necessity, reduced the general fund contribution for Capital Improvements for the next fiscal year and have not recommended any borrowing for the next two fiscal years.

Reductions or changes in capital funding for the next fiscal year include the following:

• Eliminate Vehicle Depreciation payment for the next fiscal year	\$ 26,018
• 580 Toro 16’ Mower Replacement moved to second year of program	61,200
• Roadside Mower paid for out of other funds	107,500
• Dump Truck #31 Replacement paid for out of other funds	10,000
• Material Spreading Ground Control System paid for out of other funds	30,000
• Elevator Replacement BOE (Tolland Intermediate School) paid for out of other funds	<u>64,700</u>
Total	\$299,418

The Capital Improvement Fund should normally be budgeted at a funding level which addresses the identified needs of the Town and not be used as a balancing mechanism to achieve a desired mill rate increase. In future years, efforts should be made to increase the amount of general fund dollars

allocated for this purpose to a level equal to approximately 1.5% of the operating budget. A detailed presentation on the Capital Plan was presented to the Town Council and general public on February 26<sup>th</sup> and copies of that presentation are available on the Town's web page.

The Town of Tolland remains a community seen as a desirous place to live. The unique charm of the community, the recreational and cultural amenities, the preservation of open space, the sensitivity of plan design so as not to intrude on the rural village atmosphere and a strong education system are just some of the reasons people are willing to make a significant financial investment to locate in the community. Continued change in this community is inevitable, and the impact of some of the change may be that additional dollars are needed for municipal services even during difficult financial times. Having a vibrant, growing community remains a better position to be in than a community that is stagnant or economically depressed.

Elected and appointed officials, Town employees and residents all have the best interest of the community in mind when deliberating on budget matters. The monetary and operations issues which we face are significant as we strive to find a cost effective way to continue to make our community a desirable place to live, attend school and conduct business. To maintain a vibrant municipal government and a growing community we must all come together and recognize that the type of sacrifices we are being asked to make at this time will in the long run bring about a stronger community, state and nation. I would hope that residents would attend the Public Hearing on the Town Manager's budget held on April 2<sup>nd</sup> at 7:30 p.m. at the High School Auditorium. There will also be a budget presentation by the Town Manager at the Senior Center on April 8<sup>th</sup> at 12:30 p.m. for those who cannot attend evening meetings. The Town Council Annual Budget Presentation is held on April 28<sup>th</sup> at the same time and location as the Town Manager's presentation.

The input of staff has been critical to the development of this document. I wish to express a special note of thanks to Director of Finance and Records, Christine Hutton who has spent countless hours with me reviewing department details as well as to Director of Administrative Services, Mike Wilkinson, Assistant Finance Director and Treasurer, Agata Herasimowicz, Executive Assistants, Lynn Bielawiec and Kate Whitacre who were invaluable during this process and Accountant, Laura Schwabe who has input much of the financial data. As we proceed through the budget review process, my office as well as other Town Staff remain available to answer any questions or provide information as required regarding budget matters. For the general public's information, budget documents can be accessed on the Town's web page at [www.tolland.org](http://www.tolland.org).

Respectfully submitted,

Steven R. Werbner  
Town Manager