



# TOWN OF STRATHAM

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## **Proposed Fiscal Year 2020 Town of Stratham Operating Budget**

February 27, 2020

### **Overview**

The proposed FY2020 draft budget represents many hours of planning, research, and deliberation between the Select Board, Town Administration, Budget Advisory Committee as well as department heads and staff. The budget includes the required level of investment to meet the needs and service-level expectations of our residents and business owners, as well as other factors that influence the budgeting process. These factors include the strategies and goals of the Select Board and Master Plan, contractual and debt obligations, federal and state mandates, and operational needs. Each of these items produced differing levels of constraint and were carefully considered when allocating resources to ensure efficient delivery of high-quality municipal services.

### **Select Board Direction**

This year the Board established a goal of ensuring the Town's budget is connected to organizational goals. Below are goals and priorities that are reflected in the deliberations and choices made in the proposed budget.

**Organizational Goal #1: Plan for the future through good financial planning and further pursuit of Master Plan goals and established community visions.**

2020 budgetary priority: Pursue current plans and visions for the future of Stratham's land use and economic development, including redevelopment of the NH 108 corridor in line with the Master Plan and current zoning.

2020 budgetary priority: Invest in existing financial tools that help ensure Town can maintain current services and facilities while avoiding "spikes" in needed funds from year to year (Capital Plan and Capital Reserve Funds).

2020 budgetary priority: Plan to meet emerging obligations, including for environmental remediation costs such as PFAS response.

**Organizational Goal #2: Invest in people to ensure high quality services continue, improve, and adapt to future service level needs and trends through retaining staff, attracting high quality talent, and recognizing performance.**

2020 budgetary priority: Funds adjustments to better reflect the labor market for positions.

2020 budgetary priority: Provides funds to ensure value of current compensation levels remain appropriate and reward exceptional performance.

**Organizational goal #3: Ensure effective organization and deployment of staff resources to pursue implementation of the Master Plan and meet core governmental functions.**

2020 budgetary priority: Support the restructured Finance function.

2020 budgetary priority: Reorganize all building and grounds care, maintenance and capital projects administration functions under one department, Public Works.

2020 budgetary priority: Address priorities in Parks & Recreation to ensure resources to further efforts to focus on underserved populations, including seniors.

**Organizational goal #4: Communicate effectively, consistently and proactively regarding Town issues, including internally and externally and across various Boards, Committees & Commissions.**

2020 budgetary priority: Create and disseminate products and documentation that help explain the Town's budget and capital planning efforts.

**Organizational goal #5: Ensure public safety services match volunteer capacity and ensure coverage needed to meet service level expectations.**

2020 budgetary priority: assess staffing levels in public safety departments to ensure service level expectations can be met.

2020 budgetary priority: continue efforts to fund models of compensation for volunteer fire department that ensures effective response.

**Budget Advisory Committee**

Each year, the Town Moderator appoints a Budget Advisory Committee (BAC) that meets with the Select Board to review and discuss the proposed budget for the upcoming year. This year, the BAC began meeting earlier in the budget season in order to more effectively utilize its time and help enable the Select Board to gain from its perspective. The Select Board worked to provide more information about the budget and context for budgeting decisions and to gather input from the Committee on strategic and policy decisions that go into the budget for the Town Meeting's consideration. The Select Board and BAC met jointly between December, January and February; the BAC met separately a number of times in January.

**Operating Budget General Fund Appropriations**

The General Fund operating budget totals \$7,867,126, which represents an increase of \$416,742 or 5.6% over FY2019. Factors leading to this increase are discussed in detail below. Fortunately, the Town has seen increases in revenues. These include new property valuation on the tax list as well as growth in fee revenues; together this increased revenue contributes to an overall net operating budget increase of 2.8%. The Town's 2019 budget total was slightly less than the 2018 budget (approximately \$107K) because full-year salaries for select senior positions were not included in FY2019 due to vacancies (See Salaries & Wages on p. 7). Evaluating the change from 2018 to 2020 permits a like to like comparison and reveals that the average growth was 3.4%. Gross operating budget totals, including debt service, for fiscal years 2015-2020, are presented in Figure 1.

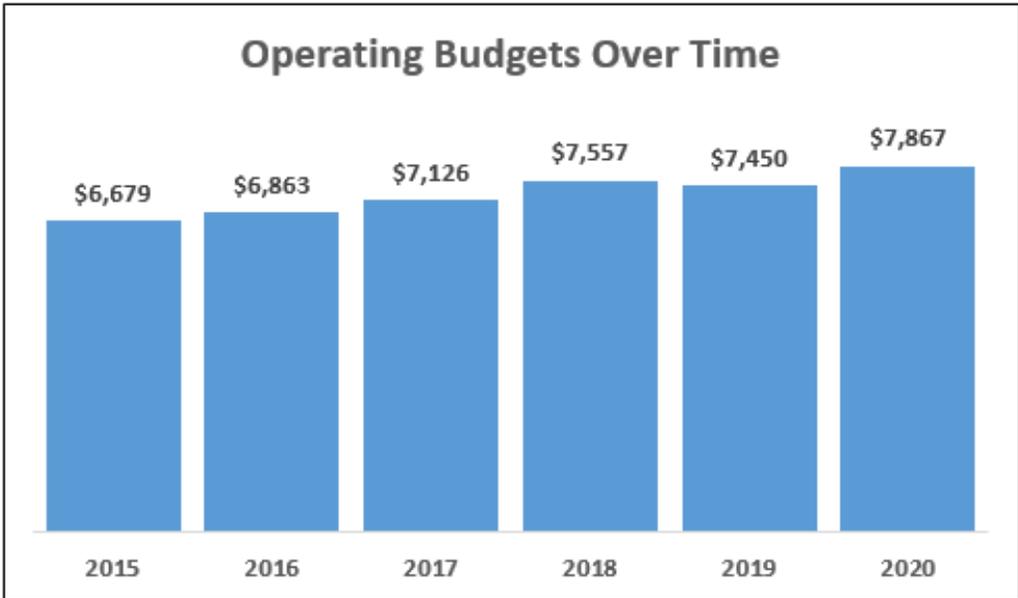


Figure 1: Operating budget totals (in thousands) for 2015-2020.

The average annual percentage growth in the net operating budget (expenditures less anticipated revenues) for 2015-2020 is 1.2%, and from 2018-2020 it is .59% (Figure 2). The average change expressed in dollars, from 2015-2020, is approximately \$51K. The lower percentage change over time for the net budget reflects growth in some revenue sources, as noted above.

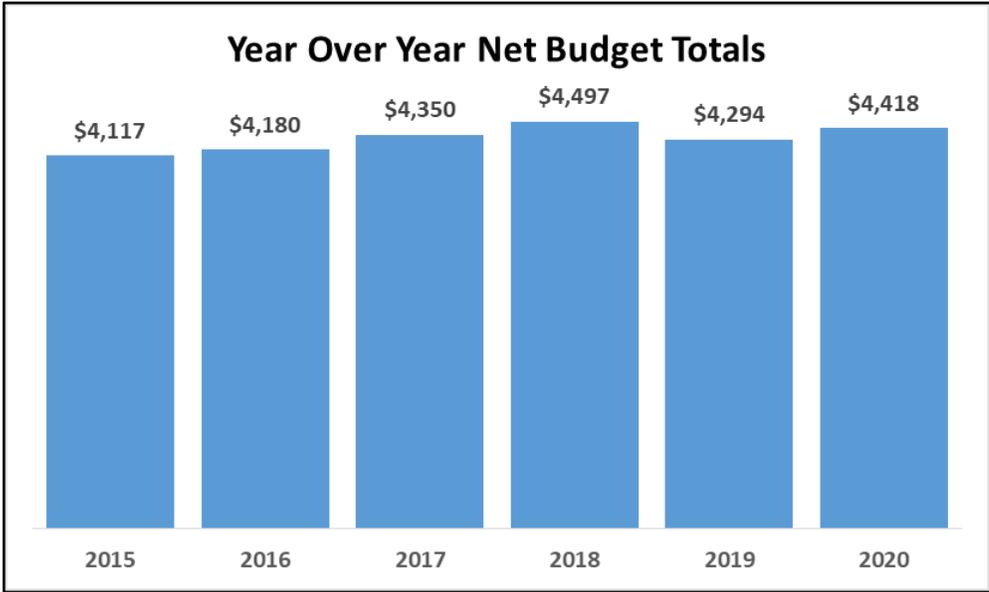


Figure 2: Net operating budget totals over time.

## Budget Components & Debt Service

It is important to note this year's General Fund operating budget includes principal payments on debt service. In previous years, the principal portion of debt service was part of the Capital Improvement Plan (CIP) warrant article. The NH Department of Revenue Administration has advised that the placement of debt service payments (principal and interest) should be in the Operating Budget. The reason is that debt service is an obligation, not a discretionary capital investment.

Table 1 presents the components of the operating budget, including debt service principal in 2019 to facilitate a valid comparison.

Component	FY2019	2019 % of		2020 % of		\$ Change over FY2019
		Total	FY2020	Total	FY2020	
Wages & Benefits	\$3,954,468	53%	\$4,447,171	57%	492,703	
Debt Service	729,483	10%	758,090	10%	28,607	
All Other	<u>2,766,433</u>	<u>37%</u>	<u>2,661,865</u>	<u>34%</u>	<u>(104,568)</u>	
Total	\$7,450,384	100%	\$7,867,126	100%	416,742	

Components	2019 % of Total		2020 % of Total		\$ Change Over FY2019
	FY2019	FY2020	FY2019	FY2020	
Wages & Benefits	3,954,468	4,404,158	53%	56%	449,686
Debt Service	729,483	758,090	10%	10%	28,607
All Other	<u>2,766,433</u>	<u>2,722,772</u>	<u>37%</u>	<u>35%</u>	<u>(43,661)</u>
Total	7,450,384	7,885,014			434,630

Table 1: Components of the operating budget for 2019 and 2020.

## Operating Budget by Function

Figure 2 presents the Town's planned spending for its functions in FY2020. General government, Public Safety, and Highways & Streets are the Town's largest programs, representing about 68% of the operating budget total.

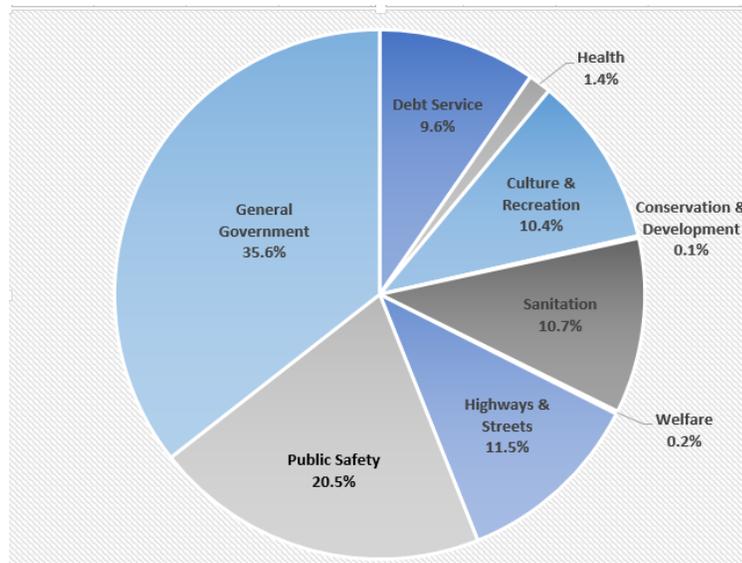


Figure 3: Percentage of the FY2020 operating budget allocated for each major program.

### General Fund Budget Drivers

Last year, FY2019, the Town's operating budget was roughly level-funded (a decrease of \$107K). Among the most significant factors leading to the small decrease was related to vacancies in senior staff positions. See Salaries and Wages on the next page.

See below for other cost drivers contributing to the year-to-year increase.

1. **Wages & Salaries - \$303,397.** The FY2020 budget includes increases necessary to fully fund salaries in 2020 that were partially funded in 2019 due to a number of vacancies as well as other adjustments. See *Salaries and Wages* on page 7 for more detail.
2. **Health insurance - \$116,364.** The Town's health insurance rates will increase by 7.4% over 2019. According to Health Trust, the Town's health insurance provider, the increase was primarily due to medical and prescription trends and our claims experience. In addition, our health census changed from what it was last January, and we added new employees who are eligible for health insurance. The health insurance budget reflects a 20% contribution from all employees enrolled in health and dental plans. See organizational goal #2.
3. **Wage driven taxes and contributions - \$79,664.** The increase in wages discussed in *Salaries and Wages* (next page) is accompanied by additional costs for Social Security, Medicare, and New Hampshire Retirement System contributions.
4. **Fire Department - \$66,028.** The new compensation model for the Fire Department reflects an annualized cost to adjust the current compensation protocol for the Volunteer Fire Department. The change from a "stipend" system to a "standby"

coverage system was implemented at the end of 2019 on a pilot basis and is intended to help ensure coverage of evening and early morning emergency calls. See organizational goal #4.

5. **Workers' Compensation - \$48,872.** The Town's workers' compensation contribution increases \$3,620 or 8%. The Town's loss ratio rose 15.5%, from .84 to .97, a primary driver in rate determination. The magnitude of the change over 2019 is because the 2019 budget was significantly reduced in anticipation of a premium holiday.
6. **Waste collection - \$41,429.** This line item funds our waste collection and disposal costs for the coming year based upon current usage.
7. **Debt service - \$28,607.** The principal payment on the Fire House/Conservation issue moves from \$180,000 to \$200,000. Interest due on the Firehouse/Conservation obligation increases \$24,253, but the additional cost is offset by decreases in interest payments on the Town's remaining general obligation bonds for a net change in interest of \$8,607.
8. **Elections \$16,250.** Every other year, the number of elections has an impact on that year's operating budget. 2020 will see a total of four elections, including large party primary and general elections.

### **New Programs in 2020**

As requested by the Board at the outset of the budget process, new programs and personnel proposed by Departments were presented separately from the initial budget draft. The Board deliberated on the addition of new programs and staffing impacting the individually. The following is a list of the changes ultimately approved for the budget.

- A. A full-time police officer - \$44,826. The total includes funding for six months of salary (\$25,264), holiday pay (\$963), uniforms (\$1,000), and payroll-related contributions (\$17,599).
- B. Part-time staff hours in Parks & Recreation – \$10,076. The total consists of wages (\$9,360) and payroll-related contributions (\$716) for a ten-hour a week part-time services coordinator in the recreation department, focused on senior programs.
- C. Increased funds for programming for senior population of \$5,510; this amount to be supplemented with contributions from the Recreation Revolving Fund.

A proposal costing an additional \$44,486 for the Fire Department to support the assignment of a third responder (firefighter/EMT) for standby coverage on all nights and weekend days is not included in this budget. The current standby coverage model, includes two responders and represents a mid-year change in the strategy for ensuring responsiveness to emergencies. The 2020 budget has absorbed the cost of this new coverage model (piloted in 2019) and future changes to the model will be evaluated.

## Salaries and Wages

Salaries and wages increase \$303,397 over FY2019. Like most municipalities, personnel costs account for a significant portion of the budget. For FY2020, these expenses total \$3,130,770 and comprise approximately 40% of the budget.

In 2019, the Town budgeted for only partial-year salaries (and wage driven taxes and contributions) for a number of vacant senior positions. The 2019 budget did not fully fund the Public Works Director, Police Chief, and Finance Administrator due to vacancies in these positions for many months. The savings associated with having many vacant senior positions was passed on to the taxpayer in 2019. Since that time, these positions have been filled. This change from limited staffing (in 2019) to full-staffing (in 2020) accounts for a significant portion of the year-to-year increase as noted above.

The following items represent 94% of the change in wages over FY2019 (Table 2).

<b>Primary Drivers</b>	<b>Amount</b>
Budgeting full-year salary for:	
Public Works payroll (Director)	27,276
Finance payroll (Administrator)	45,950
Police payroll (Chief)	24,976
New Police officer (6 months)	25,264
Police step & longevity pay	12,238
Fire Dept. new pay model	66,028
New PT Recreation staff	9,360
Salary adjustment line item	74,014
<i>Total</i>	285,106

*Table 2: Main elements driving overall wage increase over 2019.*

As presented in Table 2, the proposed FY2020 budget includes funding for a salary adjustment line item of \$74,014, described in more detail below *Compensation Adjustments Strategy*. See organizational goal #2.

## Compensation Adjustments Strategy

As with the previous year, department heads have been asked to submit “level” salary payroll items as part of their proposed budgets. The Board elected to create a Compensation Adjustment line item, totaling \$74,014. This reflects the Boards’ recommendation to plan to adjust compensation levels in accordance with an overall strategy, see Organizational Goal #2.

The strategy for addressing compensation adjustments in 2020 is three-fold 1. Changes to base salaries for certain positions to maintain competitiveness in the labor market 2. Increases based

on performance tied to cost of living levels. 3. One-time bonus recognitions that do not add to base compensation in future years.

## General Fund Revenue

The Town's top non-property tax revenue streams over the last five years are shown in Table 3.

Source	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Preliminary	2020 Budget
Motor Vehicle Permit Fees	1,626,828	1,890,961	2,127,116	1,852,740	1,981,187	1,875,000
Meals & Rooms	350,905	379,237	379,336	379,434	380,025	375,000
Income from Departments	292,816	302,244	325,423	303,662	370,841	362,270
Building & Other Permits	139,833	102,085	129,934	141,922	274,507	313,200
Highway Block Grant	160,119	172,436	320,982	176,217	178,764	175,000
Interest on Investments	13,811	21,125	65,354	141,752	165,900	100,000
Other (Town residential property rent)	84,243	64,929	92,056	81,333	97,186	74,700
Interest & Penalties on Taxes	83,373	89,335	62,662	86,199	56,600	57,500

Table 3: Revenue history.

In the largest revenue source outside of property tax, Stratham has seen significant revenue growth in motor vehicle permits through FY2017, averaging almost 13% each year from FY2014 – FY2017. FY2018 motor vehicle permits revenues fell about \$274K in FY2018. The drop in revenue was primarily due to the relocation of a significant vehicle fleet outside of Stratham. Motor vehicle permit revenue rebounded in FY2019, increasing 7% over 2018 and coming within \$147K of its highest-grossing year. Other income sources that have shown growth include interest earnings and building permits.

Estimated revenues are budgeted conservatively. The Town has the ability to adjust revenue estimates right up until the tax rate is set in October. This flexibility permits a fine tuning of revenue projections well after the budget is set. FY2020 revenue estimates, not including the use of unassigned fund balance and operating transfers from Special Revenue Funds, are detailed below (Table 4):

Revenue Source	FY2019 Budget	FY2020 Budget	\$ Change
Yield Tax	1,000	1,000	0
Interest & Penalties on Taxes	57,500	57,500	0
Business Licenses & Permits	40,000	41,405	1,405
Motor Vehicle Permits	1,800,000	1,875,000	75,000
Other Licenses & Permits	189,000	313,200	124,200
Meals & Rooms Tax	380,025	375,000	(5,025)
Highway Block Grant	179,032	175,000	(4,032)
Other State Revenue	56,923	52,999	(3,924)
Other Governmental Revenue	16,975	0	(16,975)
Income from Departments	217,700	355,520	137,820
Sale of Municipal Property	21,853	7,985	(13,868)
Interest on Investments	120,000	100,000	(20,000)
Other Miscellaneous Revenue	63,000	74,700	11,700
From Trust Funds	47,759	20,000	(27,759)
<b>Total</b>	<b>3,190,767</b>	<b>3,449,309</b>	<b>258,542</b>

Table 4: Estimated revenues by revenue type.

## Debt Service

The Town has three general obligation bond issues. Table 5 displays the next four years of debt service obligations (Principal and Interest) and each issue's final maturity date.

Description	Debt Service Due In				Maturity Date
	2020	2021	2022	2023	
Municipal Safety Complex	292,820	287,188	276,562	265,938	2024
Fire House/Conservation	297,813	282,620	272,420	262,220	2028
2012 Conservation	<u>167,458</u>	<u>162,538</u>	<u>156,417</u>	<u>150,897</u>	2033
Totals	758,090	732,346	705,399	679,055	
\$ Change over Previous Year	28,607	(25,744)	(26,947)	(26,344)	

Table 5: Debt service payment and maturity dates.

## Tax Rate

The composition of the Town's property tax rate from 2014 – 2019 is presented in Table 6. Revaluations took place in 2014 and 2019.

Jurisdiction	2014	2015	2016	2017	2018	2019
Town	\$3.61	\$3.96	\$3.96	\$3.83	\$3.95	\$3.30
County	1.03	1.04	1.05	1.03	1.05	0.87
Local Education	12.80	12.60	13.06	13.10	13.75	12.58
State Education	2.47	2.30	2.33	2.34	2.25	1.88
Total Rate	\$19.91	\$19.90	\$20.40	\$20.30	\$21.00	\$18.63

Table 6: Tax rate by jurisdiction.

The Town's tax rate, for the period shown, has averaged 18.8% of the total rate. Each jurisdiction's proportion of the overall rate has remained fairly consistent. On average, for each dollar paid in property taxes, 19 cents pays for Town services, 76 cents funds Local and State Education, and 5 cents supports Rockingham County's operations.

## Financial Position

The Town ended FY2018 with an unassigned fund balance of \$2,045,324, and after using \$744,452 to reduce the 2019 tax levy, it retained \$1,300,872. The financial health of a municipality is assessed, in part, by its liquidity and its ability to meet short-term obligations. The Town's unassigned fund balance is an important measure of fiscal stability. Over the long term, the Town's saves money by paying lower interest rates on future borrowing; a fund balance that lies within recommended standards will ensure the Town's future debt issuances

are attractive for investors. Table 7 shows the Town’s unassigned balance and the amount of unassigned fund balance used to reduce the tax levy.

The Town anticipates that the operating results from FY2019 will increase the unassigned fund balance (UFB) sufficiently to apply \$700K to reduce the 2020 tax rate and \$150K to reduce the amount raised from taxation for the Capital Reserve Funds (Article 11), without reducing the current UFB of \$1.3M.

	2015	2016	2017	2018	2019
Beginning Unassigned Fund Balance	1,541,821	1,690,937	2,102,367	2,069,112	2,045,324
Less: Fund Balance to Reduce Taxes	<u>341,821</u>	<u>490,937</u>	<u>902,367</u>	<u>869,112</u>	<u>744,452</u>
Fund Balance Retained	1,200,000	1,200,000	1,200,000	1,200,000	1,300,872

Table 7: Unassigned fund balance used to reduce taxes 2015-2019.