

Moultonborough
2010 Town Budget
Recommendations and Comments



Advisory Budget Committee

Thursday, January 28, 2010

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To the Members of the Select Board, Town Administrator
Moultonborough Town Hall
Moultonborough, New Hampshire 03254

The Moultonborough Advisory Budget Committee (ABC) would like to thank the Moultonborough Select Board and the Town Administrator for their professionalism, cooperation and responsiveness during our budget review. The following report represents our independent opinions and suggestions. Any opinions and suggestions offered by the ABC represent our best efforts to maximize efficiencies, spending power and to consolidate redundancies between the various elements of Town-wide Administration (Town, Library, and School). Our suggestions and opinions should not be viewed as a negative reflection of the dedicated work done by the Select Board Members, Town Administrator or Town Administrative Staff. Moultonborough is one Town with "One Consolidated Tax Rate". The ABC will continue to stress the concept of One Town / One Tax Rate and consolidated services where we believe redundancies exist.

ABC APPROACH:

The ABC has completed its review of the 2010 Proposed Town Budget.

Our Charter is designed to provide the community with additional "eyes" and review of the Town, Library and School District budgets. Reports on the Library and School Budgets have been issued under separate cover and will not be further addressed herein. The ABC review included touring all current facilities, interviewing all Departments and the Town Administrator. The ABC scope included developing an understanding of the processes, procedures and time lines used by the town to develop their annual budget, review of the current year and proposed budgets to gain an understanding of the budget expenditures and revenues, as well as budget subdivisions and line items. We reviewed all budget proposals made by the Town Administrator, Select Board and/or Select Board Committees.

Our scope further included review of:

- Current organizational structure
- Various operating contracts, i.e. maintenance, fuel, facilities, ambulance
- Current employee benefit offerings
- Salary Structure & related Thornton Study
- Proposed departmental operating budget
- Proposed capital budget spending plan
- Proposed Road Maintenance program
- All Town Budget meetings related to the proposed budget including individual department head budget review meetings and all Select Board budget workshop meetings.

OBSERVATIONS & COMMENTS:

The ABC has the following observations and comments that the Committee believes should be addressed by the Select Board and Town Administrator. Our recommendations this year are differentiated in this report between immediate and longer term observations.

The ABC would like to take the opportunity to recognize many initiatives undertaken in the past year in response to items identified in last years' Town Budget report. We would like to express thanks to the various Administrative Staffs and Board of Selectmen for their efforts. Specific Actions included a new Chart of accounts reducing the existing 40+ departments by 50% and substantially reducing the existing 175+ subsidiary accounts. The Department of Public Works was created to coordinate all related activities under one central direction. Public Works began the process of switching to a "Pavement Management System" which moved the town out of the emergency or reactionary method of road repair and maintenance to more of a "Preventive Maintenance" methodology. Equipment and processing improvements at the Transfer station were implemented resulting in an annual cost savings of approximately \$45K. A full time Town planner was hired and Office of Development Services initiated. A town wide Emergency Management Program is currently in process of being initiated. In addition, during the past year, the Town undertook a comprehensive compensation and benefits study and is currently exploring alternative approaches for implementation. We look forward to the ongoing completion of these initiatives.

Immediate short term observations and recommendation

- **Salary** –The proposed budget includes a zero % COLA for all Town employees for 2010. Given the current economic conditions (the number of Moultonborough's families seeking financial assistance has increased 50% over the past year) and the fact that New Hampshire's current cost of living is -.7% (Negative) as of the close of the Third quarter 2009; the committee **does not support** an across the board increase of any amount. The Committee is pleased that the Select Board held the line on across the board increases for the upcoming year. The Town grants step increases to its employees on a staggered two year rotation. The committee understands that the employees scheduled for their respective two year step increase will be granted such increase for 2010. To withhold the step at this time would cause an unfair parity issue with the remainder of the employee base who received their respective year step award in the previous year. We believe this is the **Right Approach** to be taken in these economic times of uncertainty...
- Thornton Salary Survey - The general ABC consensus is that although the survey undertaken this year by Thornton Associates provided a great deal of information related to position classification and respective salary ranges we were disappointed that it fell short on defining and placing appropriate emphasis on the "Total Compensation" approach. The study did make an attempt to look at the various elements that comprise "Total Compensation. The committee, however, believes the direction given from the Administration was primarily a focus on position and grade range classification. Our specific recommendations related to the current wage and salary process and Thornton Study are as follows:

The committee would like to see the Town proceed with a "Pay for Performance" wage and salary structure replacing the current automatic step structure (providing the employee meets a job satisfactory performance review). The committee believes that a performance rating of satisfactory is a minimum requirement for maintaining a job, not an entitlement to increased compensation. The Town should develop a remedial plan to deal with employees who may fall outside of the adopted position grade structure. It is our understanding that the Board of selectmen is planning on reclassifying those employees whose salary grade has been identified as below market. The Committee understands that any reclassification of positions will be in lieu of any step increases that may be due the affected employees. It is our further understanding that the salary cost impact to implement the reclassification for

the affected employees is approximately \$25,000 which includes the related payroll tax impact. The Committee supports this effort.

The committee would like to encourage the Town to eliminate the current COLA mindset. In its place the wage and grade tables should be adjusted annually to reflect current changes in the Consumer Price Index. This process does not guarantee all a minimum cost of living pay raise.

The ABC recognizes the need for a robust annual appraisal process to facilitate “Pay for Performance” and encourages the Town to develop one. The Committee believes in order to maintain salary parity among all town employees that all employees including Library employees should adopt uniform wage, benefit and performance measurement policies.

- **Payroll** - The ABC believes that the Town should explore and implement a two-phase change to its payroll preparation process. We believe that the Town should move to a bi-weekly payroll for all its employees. We further believe that outsourcing the payroll and the related tax preparation process to a professional source would reducing the frequency of payroll preparation would result in better use of town employee time and talent. A Town wide contract for outsourced payroll may provide economies of scale and should be explored with the Town and School District. Outsourced payroll is very cost effective, accurate, and will provide the existing staff additional time to spend on more value added opportunities.
- **Road Maintenance** - Historically, the town has allocated annual budget dollars to rebuild and repair town roads under a “Worst Ten” roads program that was essentially a reactionary or emergency approach to road management. During 2009, the Town began the process of switching to a “Pavement Management System” which moved the town out of the emergency or reactionary method to more of a “Preventive Maintenance” methodology. Preventive maintenance is statistically less costly over time versus emergency maintenance. Historically, the Town has spent approximately \$375,000 in repairs of which the NH Department of transportation (DOT) & (SAR) contributed approximately \$125,000. The annual budget for road repairs of approximately \$250,000 (net of State reimbursement) has remained fairly consistent over the past several years while the cost of materials for repairs has increased significantly. The net result is that the Town has failed to keep its road maintenance instep with inflation. The DPW manager has submitted to the Town a multi-year plan to address the maintenance requirements both on a short term “immediate needs” catch up repair basis and a longer term “preventative basis”. The current three year plan proposed by the public works manager increases expenditures for annual road maintenance to approximately \$575,000 (net) indexed for inflation in the ensuing two years. The Committee supports the migration to the preventative maintenance system as proposed. The Committee further supports the increased proposed tax levy for the 2010 road repair. The committee would also like to propose that the Town look to alternative financing arrangements; i.e. bonding that would keep the current year total budget dollars consistent with the proposed 2010 budgeted dollars while allowing the town the ability to upgrade and repair many of the more serious road conditions in the short term versus having to schedule the more severe road repairs out into future years. The ABC would be willing to assist the Town in identifying alternative financing arrangements.
- The ABC further Believes the Town needs to set formal uniform standards for private road conditions and maintenance. Private roads would need to conform to the formal standards in order to participate in winter municipal snowplow service.

- **Changing Fiscal Year-** The Town is considering changing from a calendar 12/31 Fiscal Year End (FYE) to a 6/30 FYE. When converting from a traditional calendar year budget to the optional July 1 fiscal year, the first budget represents an 18 month cycle requiring an additional six months of funding. Currently accounting and spending begin on January 1 of each year. The Budget is not approved until Town Meeting in March. Technically, the Town is operating for three months each year without an approved budget. Currently, tax bills are issued in June and December. Taxes are collected in arrears of spending. Half the tax revenue is received by the Town in the last few weeks of the current year and the first month of the following year. By changing to a fiscal year (July 1 – June 30) and moving the resulting Town meeting to May, the spending budget is approved in advance of the spending year. The Town will operate on a consistent cycle with the School District and State. This will help facilitate opportunities for consolidated service contracts between Town and School District. Moving the Town meeting to May will provide the community (especially those out of town during the winter months) the opportunity to be involved and participate in the Annual Town Meeting.

There are many benefits to Moultonborough in changing the annual budget year from a calendar year to a fiscal year but the transition will be challenging for taxpayers and administration. One significant challenge facing the Town includes identifying a funding mechanism to cover the initial 18 month transition year.

The ABC feels that such a change could be beneficial to the town and recommends that an analysis be undertaken to evaluate the merits, financial and other implications of such change. The ABC volunteers to work with the Administration and Board of selectmen to identify and resolve implementation issues and funding alternatives.

Long term observations and recommendations

- **Benefits** - The Town should undergo a competitive analysis of its current “Benefits” package including, employee /employer benefit contribution rates. The 2010 budget includes significant increase (approximately 16 % and 6 % respectively) in the cost of health and dental benefits. Health benefits are part of the total compensation paid to employees, as is the retirement contribution. Often the value of employer provided benefits is overlooked in the annual salary discussion with employees. Currently the Town pays 100% (Single) and 90% (Family) toward health insurance plan costs. The ABC believes that the Town should:
 1. Explore the possibility of combining with the School District and the Library in order to maximize the health benefits provided and related cost.
 2. Place all major benefit contracts out for competitive bid.
 3. The School District, the Town and the Library need to revisit the current cost sharing agreement with employees relative to the percentage of the employee/employer contribution.
 4. The ABC recommends that the employee cost sharing contribution should be increased. The increase could be incrementally phased in over a few years.

- **Consolidation of Shared Services** - During 2009 several town departments along with the school have taken steps to consolidate and coordinate various functions. Specifically, the Road Agent, the Department of Public Works, the Transfer Station, and the School have worked together to obtain more efficient use of personnel and equipment. The town should see savings due to cross training of personnel and more efficient use of equipment. The ABC applauds these steps and recommends that continued efforts, both on a short and medium term basis, be made to find additional savings. Other short-term actions such as those mentioned above include the concept of a town “Motor Pool” which is being developed under the direction of the Road Agent. We feel that this concept of having town owned vehicles centrally located for the use of all town departments is excellent and should result in additional savings to the taxpayers.

The Committee believes that there are economies of scale that could be gained by consolidating efforts for grounds and building maintenance, janitorial services, bulk purchasing of common supplies and consolidated contracts for utilities, Insurance and Employee Benefits between the Town, School and Library. The Committee would like to see the three groups continue their efforts to consolidate and collaborate where feasible (See specific recommendations in other sections of this report). We recommend the implementation of these changes on a short-term basis but realize that a medium-term goal is probably more realistic.

- **Budgetary Control** – Annual budgets have historically been presented as prior year budget compared to proposed budget. ABC recommends that in the future budget presentations focus on a comparative analysis between current year actual or estimated actual and proposed budget.
- **Revenue** – The 2010 Revenue Budget for the Town approximates \$2,357,000. The major components included in the budget are; Motor Vehicle registrations \$1,050,000, Rooms & Meals tax \$ 220,000, Visiting Nurse \$220,000, Highway Block Grant \$143,259, Landfill & recycling \$130,000, Police Department \$50,000, building deposits \$50,000, recreation department \$45,000, interest \$40,000, COBRA reimbursement \$85,000 and interest and penalties on tax billings of \$50,000. The committee believes the amounts to be reasonable and continues to work with the administrative staff in order to identify trending statistics and tools to improve accuracy for future projections.
- **Tax bills** - The Town currently prepares and issues tax bills twice a year. The ABC believes that if the town went to a quarterly tax collection the town would significantly increase and improve its cash flow and be able to better control its finances. Many municipalities have moved to quarterly tax collection, realizing significant improvements in cash flow. In instances where mortgage companies are collecting escrow for tax bills and earning interest on those collections, the town could now realize those benefits. Should the Town vote to change its calendar year to a fiscal year this would be an attractive alternative to fund the transition.
- **Reserves** – The Town is increasing annual amounts to be appropriated for both the Fire Department and Department of Public works. The intent will be to level fund the respective reserves each year therefore eliminating year over year budget spikes as currently experienced each time a major piece of equipment is purchased. Currently the full cost of major equipment purchases are budgeted and appropriated in the year of purchase. Both departments have provided detailed analysis supporting the anticipated funding levels. The

ABC supports the change and agrees with this level funded reserve approach. Reserves will be funded \$75,000 for both the Fire and DPW departments for 2010. Subsequent year funding will be adjusted as the future detail capital spending Requirement analyses are fully analyzed.

Budget Summary:

The proposed town appropriations for 2010 represent \$9,461,665 as compared to \$9,466,079 for the prior year. This represents a decrease of \$4,414 or a 0.05% year-over-year decrease. Not included in the total proposed appropriations are any costs associated with petition warrant articles (Information regarding petition warrant articles is not available at this time).

The decrease in general operating expenses of \$96,077 is primarily attributable to the elimination of debt services in the amount of \$482,486 off set by the general increase in Health Insurance of approximately of approximately \$135,000+/-, increased funding of pension costs \$25,000+/-, a general contingency reserve of \$136,000, contractual step increases of \$58,000 plus related benefits, Human Services department increases of \$35,000, increased general liability insurance of \$10,000, and increased COBRA Insurance coverage \$ 30,000 (this item will be reimbursed through revenue). Additional savings of approximately \$45,000 were generated by reorganization of staffing and materials handling at the Solid Waste Department.

Offsetting the decrease in operating expenses, Capital Outlay and Reserves represents a net decrease of \$4,414. Specifically, Capital outlay decreased approximately \$163,500. Additions to the Capital Reserve Funds increased \$109,618 as compared to the prior year (includes increased reserve levels for Fire and DPW equipment as addressed in the body of the report). Road repair reserves increased approximately \$125,000 year over year (as discussed above). Also included is a warrant article for a backhoe to be acquired under a five year lease purchase arrangement. If approved, the approximate cost to lease will represent \$19,500 per year.

Conclusion:

We believe that the proposed budget of \$9,461,665 as prepared is a comprehensive and accurate representation of the cost to operate the Town of Moultonborough for 2010. As in the prior year this has been a collaborative process between the ABC, The Town Administrator and the Board of Selectmen. The Committee was present for all department budget review and planning sessions as well as all Board of Selectmen Budget Workshop sessions. We expressed our opinions freely throughout the budget process. Our opinions were respected, considered by the Select Board and acted on where appropriate. As a committee, we have uniformly stated (School, Library and Town) that we cannot support across the board salary increases this year given the current employment situation, general overall economy and the reality that many employers are asking employees to take a reduction in pay. We are pleased the Board of Selectmen have agreed and supported our position. We hope the economy will stabilize in 2010 and annual increases can be reinstated.

There are opportunities as outlined above that should be pursued for further future cost improvement. We believe these opportunities include consolidation of non-core activities by the Town, School and Library, including but not limited to sharing of capital equipment, buildings and grounds maintenance, janitorial services, consolidated benefit offerings, common purchase of supplies, and centralized service and utility contracts. We also strongly believe that the Board of Selectmen should focus their efforts on setting policy, and increasing communication and participation with the local businesses, residents and ancillary Boards (Planning and Zoning).

Of major concern to the Committee and not addressed elsewhere in this report is the possibility that Moultonborough will again become a “Donor Town” coupled with continued aging of the town population and declining school enrollment. The Committee believes this is a town- wide issue not isolated to the School District and has continued to express concern that the Town and School Board should join with community leaders to adopt a proactive approach toward formulating long term contingency plans in the event of continued enrollment declines and changing demographics which could have a serious impact on education and town services in the future. The Committee ***strongly believes*** that the community as a whole needs to come together to formally addresses the issues.

The town should aggressively pursue the initiatives outlined above. We understand that some of the opportunities are influenced by contractual agreements. We anticipate that the Select Board and Administration will carefully consider our recommendations.

Respectively submitted,

Moultonborough Advisory Budget Committee
Jean Beadle
Alan Ballard
Karel Crawford
Kathy Garry
Ed Marudzinski

The major comparative components of the budget are indicated below:

Operating Exp.	<u>2009</u>	<u>2010</u>	<u>Variance</u>	<u>%</u>
Executive Offices	\$270,148	\$391,736	\$-121,588	-45.00
Finance & Admin	432,331	437,196	-4,865	-1.13
Tax Collector	139,787	146,383	-6,596	-4.72
Town Clerk /Election	198,327	209,802	-11,475	-5.79
Town Assessing	192,256	194,257	-2,001	-1.04
Development Servcs	246,511	288,806	-42,295	-17.16
Insurance	114,533	155,000	-40,467	-35.33
Public Safety	2,345,749	2,452,599	-106,850	-4.56
Public Works	1,854,797	1,899,606	-44,809	-2.42
Community Services	958,593	1'002,245	-43,652	-4.55
Library	442,703	450,397	-7,694	-1.74
Solid Waste	671,526	625,643	45,883	6.83
Debt Service	482,486	0	482,486	100.00
Total Op Exp	\$8,349,747	\$8,253,670	\$96,077	1.15

Capital/ Reserve	<u>2009</u>	<u>2010</u>	<u>Variance</u>	<u>%</u>
Capital Outlay	\$534,000	\$368,500	\$165,500	31.00
Capital Reserves	115,682	227,300	-111,618	-96.49
Roads/Annual	450,000	575,545	-125,545	-27.90
Maintenance Resrvs	16,650	16,650	0	.00
Warrant/ Backhoe		19,500	-19,500	-100.00
Total Capital/Resrvs	1,116,332	1,207,495	-91,163	-8.17
Total Tax levy	\$9,466,079	\$9,461,665	\$4,414	.05

Capital Reserve	340,000			
Transfer				
Roads/ Funded	387,045	125,000	262,045	67.70
Agency Contributions	48,135			
Total Appropriations	\$10,241,259	\$9,586,665	\$654,594	6.39

Note: Unfavorable variances are preceded by a - (negative sign)