

TOWN OF CANTON
FISCAL YEAR 2011-2012 BUDGET
CAO BUDGET MESSAGE

February 2, 2011

Dear Board of Selectmen:

The following is the 2011-2012 CAO's Preliminary Budget for Board of Selectmen operations in accordance with Town Charter Section 7.04(A). Just as in the previous fiscal year, this budget reflects the continuing difficult economic conditions. The proposed budget represents a 2.8% increase over last years funding levels. This proposed budget restores funding to road projects and through a revised Capital Improvement Plan, indicates the accumulative impact of deferred maintenance and other capital expenditures. As always, Town staff has worked hard to present a budget that is fiscally responsible but still meets the needs of the Town.

One of the emphases in this year's budget is road maintenance. In last year's budget \$30,000 was appropriated for a Pavement Management Study. The study involves an inspection of all Town roads to determine each road's current condition. Then each road is graded based on a Pavement Condition Index (PCI). Finally a treatment is recommended for the road, such as chip seal, overlay, reconstruction etc., along with a cost estimate for the treatment. The study includes necessary drainage work and municipal/school parking lots. Although the study is still ongoing, the preliminary finding is that the Town has over 15 million dollars of backlogged maintenance to perform on local roads. In fact, 24% of Town roads require "base rehabilitation", essentially reconstruction at a cost of \$8,470,000. It is important to note that delaying road maintenance comes with a risk. The cost to chip seal a road is \$10.35 a square yard. If a road is allowed to deteriorate to a condition that requires rehabilitation, the cost rises to \$43.66 per square yard.

Except for two (2) years, the Town has historically budgeted \$220,000 annually for road maintenance. The engineers working on the Town's pavement management plan recommends that the Town budget 1.7 million a year over the next ten years. Recognizing that this is more that can be budgeted through the operating budget under current budget constraints, the amount budgeted for road maintenance is being increased from \$220,000 to \$320,000. Another change is that the road maintenance is being budgeted through the Capital Improvement Plan (CIP) instead of the operating budget. This will allow the funds to be utilized in more than one fiscal year and will allow the Town to pool funds for larger projects. It is also recommended in the CIP that the amount budgeted for road maintenance be increased by \$50,000 each year until fiscal year 2013-2014. Even with these increases in expenditures, road maintenance will not be sufficient. Many towns have bonded to make significant capital improvements to their roads. This is something Canton should consider in the future.

There have been changes to the way the CIP is presented. Each year there is significantly more capital expenditures presented for funding than can be afforded. This is not unusual, but with the increase in costs and limited spending due to the economic conditions, more and more capital expenditures are being deferred. In the past, these projects would just be pushed to the next year of the CIP. For example, last year's CIP indicated that in 2010-2011 there would be \$405,000 of operating funds utilized to fund capital expenditures and that in 2011-2012 there would be \$1,408,498 utilized and in 2013-2014 there would be \$7,596,816. The revised CIP starts 2011-2012 with a contribution of \$750,000 then goes up approximately \$50,000 a year for the next two (2) years then levels out. The only projects indicated to be funded are high priority and within the amount budgeted. All unfunded projects are clearly indicated. The CIP also indicates the total dollar amount of annually unfunded capital projects.

The budget fully funds the Town's pension and health obligations as recommended by the Town's actuaries. The CAO's proposed budget also continues to set aside funds to partially off-set the liability of employee severance costs.

The operating and capital budget requests submitted by Department Heads represented a 5% increase over last year's budget. When requests for capital improvements are considered the total operating and capital requests from Department Heads represents a 31% increase. The final CAO proposed budget totals \$9,314,628 an increase of 2.8% from the Fiscal Year 2010-2011 budget.

The CAO's proposed budget is detailed below:

	Fiscal Year 2010-2011	Fiscal Year 2011-2012	% Change	\$ Change
Board of Selectmen Operations	8,654,702	8,564,628	-1%	(90,074)
Capital Improvements	405,000	750,000	85.2%	345,000
TOTAL	9,059,702	9,314,628	2.8%	254,926

ASSUMPTIONS

The Fiscal Year 2011-2012 Preliminary Budget encompasses a number of basic fixed expenditures affecting operations. Some items such as heating fuel and diesel will not be competitively bid until late February and may therefore have to be adjusted later. The assumptions upon which these expenditures are based are detailed below:

FACTOR	Assumption	Total Amount
Pension Contribution – Defined Benefit Plan (General Fund portion=496,186)	100% as recommended	515,077
Defined Contribution Plan (General Fund portion=181,000)	12/10 estimate	192,224
Vehicle Fuel – Regular	2.5984 per gallon	
Vehicle Fuel – Diesel	3.20 per gallon	
Heating Fuel – #2 Oil	3.20 per gallon	
Heating Fuel – Natural Gas	.7930CCF	
Electricity – Light & Power	Trend	
Water	Trend	
Mileage Reimbursement	.51	
Workers Compensation Insurance (General Fund portion = 110,715)		119,050
Property & Casualty Insurance (General Fund portion = 118,087)		132,297
Employee Health Benefits – Medical (General Fund portion = 695,574)	100% of recommendation	743,708

INITIATIVES AND NOTABLE BUDGET ADJUSTMENTS

Creation of the Part-Time Recreation Program Specialist Position: The Park & Recreation Commission requested that the position of Recreation Program Specialist be expanded from 8 hours per week to 15 hours per week. The position assists with clerical duties and supervises youth programs, including after-school activities at the Community Center and the Youth Services Bureau's weekend programs at the "Cave". The position is funded through the Park and Recreation Special Revenue Fund which is supported by user fees.

Pavement Management Program: As stated above, this is a program that was started last year. A study of Town roads indicates that there needs to be an increase in the amount of funding for road maintenance. The program provides software that allows the Town to track the condition of the roads and any improvements to the roads. The program also allows the Town to program various funding scenarios and thereby determine what the future condition of Town roads will be based on proposed annual contribution for road maintenance. Based on the condition of the Town roads it is recommended that the Town pay a minimum of 1.4 million dollars a year for the next ten years for road maintenance. The current budget raises the amount for road maintenance from \$220,000 to \$320,000. The Capital Improvement Plan recommends that the amount be increase by \$50,000 annually over the next two (2) years.

CCM: The budget includes a request to become members of the Connecticut Conference of Municipalities (CCM). Canton is one of the few towns in the state that is not a member. CCM provides a number of services that would be a benefit to the Town. These services include: training which is usually free to members; human resources assistance such as recruiting, labor relation data, and job descriptions; energy program which includes energy bidding and conservation services; financial services including organizing reverse auctions; research at the request of individual towns; bulletins and publications on information essential to town management and general advocacy before government entities of behalf of municipalities. It cost the Town \$5,633 to be a member of CCM.

Road Salt: Several years ago the Town went from treating roads with sand or sand/salt mixture to all salt. In every year since, the Town has budgeted insufficient funds for the cost of salt. As of the end of January, the Town has already depleted its 2010-2011 budget for salt. In the CAO proposed budget, the amount for salt is being increased from \$118,000 to \$150,100. The three (3) year average for salt has been \$142,107. This amount may be decreased if the Town installs automated salt spreaders that regulate the amount of salt distributed as the truck slows. It is anticipated that these will be installed on all new trucks.

Non-Union Full Time Wage Increases: The budget includes funding for wage increases equal to 2% of the total non-union full time wages. In the current budget year, the Board of Selectmen stated that there would be no cost of living increases and that wage increase would be based on merit only. This amount represents a decrease from the 3% which is currently budgeted for non-union wages.

Non-Union Part Time Wage Increases: Funding is contained within the operating budget to provide 3% general wage increases to non-union part time staff.

26½ Pay Period: Due to accounting principals, every five (5) years the Town has to budget for an extra week of payroll. This accounts for an additional \$77,186 in this year's budget.

Health Insurance: The cost of providing health insurance to Town employees continues to rise. The Town is self insured and therefore maintains a fund to pay anticipated claims. In order to be able to pay future claims and maintain a sufficient contingency in the fund, the Town's actuaries are recommending a contribution from the general fund of \$695,514 or an 11% increase over the previous year's budgeted contribution. To give an indication of the rise in health insurance costs, the amount contributed in the 2009-2010 budget was \$538,045 an increase of 29% in two (2) years.

Budget Increase: As opposed to the last two (2) CAO proposed budgets, this year's budget has an increase of \$254,926 or 2.8%.

The primary reason for the increase is:

ITEM	INCREASE
Pavement Management	\$100,000
Snow Removal (salt)	\$32,000
26½ Pay Period	\$77,186
Health Insurance	\$69,158
TOTAL INCREASE	\$278,344

Transfer Station: The Transfer Station is anticipated to operate during the current fiscal year at a slight deficit. The reason for only a slight deficit in the current fiscal year is the revenues were raised as a result of the increase in the cost of a transfer station sticker. The Transfer Station is anticipated to operate again next year at a slight deficit. Below is a comparison of expenses and revenues:

	Fiscal Year 2005-2006	Fiscal Year 2006-2007	Fiscal Year 2007-2008	Fiscal Year 2008-2009	Fiscal Year 2009-2010	Fiscal Year 2010-2011	Fiscal Year 2011-2012
Expenses	468,945	452,862	418,558	354,806	237,815	280,264	266,104
Permit Fee & Token Revenue	150,698	147,963	147,390	175,332	177,992	250,000	250,000
CRRA Hauling Offset	25,922	25,283	23,853	22,856	21,825	17,500	15,000
Operating Deficit	292,325	279,617	247,315	156,619	37,998	12,763	1,104

Capital Improvement Plan: The Capital Improvement Plan (CIP) represents a financial plan that identifies capital needs, establishes priorities and identifies potential funding sources. Comprehensive in scope, it includes projects that are funded through the Town's operating budget, state and federal grants and other sources.

One change that has been made in the presentation of the Capital Improvement Fund is that the amount of funds from the operating budget being transferred to fund the CIP is remaining relatively flat in the outgoing years. As previously discussed, prior Capital Improvement Plan would indicate that all deferred projects would be funded in future years. This would result in future Capital Improvement Plan expenditures growing significantly in future years, which is unrealistic considering current spending levels. The revised Capital Improvement Plan keeps future spending relatively level thereby giving a clearer indication of what will be funded and what will continue to be deferred. The Plan also gives an indication of the total value of the unfunded capital projects.

The capital projects proposed for funding in Fiscal Year 2011-2012 are listed below. Descriptions of each project can be found in the Long Range Capital Improvement Plan section of the Budget document.

	FY 10-11	Source
FACILITIES		
Town Hall Improvements	34,000	LoCIP
Doors & Windows Replacement	60,000	LoCIP
Doors & Windows Replacement	54,205	Energy Grant
Community Center Improvements	25,000	LoCIP
PUBLIC WORKS		
Pavement Management Program	300,000	Operating
Town Wide Sidewalk Replacement	10,000	LoCIP
Bridge Improvement Program	25,000	Operating
PUBLIC SAFETY		
Thermal Imaging Camera	10,000	Operating
LAND USE		
Plan of Conservation and Development	25,000	Operating
RECREATION/SENIOR SERVICES		
Mills Pond Pool Evaluation and Improvements	20,000	Operating
WATER POLLUTION CONTROL FACILITY		
Roof – Administration and Digester Building	75,000	WPCA Cap. Fund
MAJOR EQUIPMENT / VEHICLE REPLACEMENT		
John Deere Backhoe Replacement	135,000	Operating
Bobcat Skid Steer and Trailer	39,000	Operating
Police Vehicles	46,000	Operating
New Ambulance	50,000	Operating
New Fire Apparatus	100,000	Operating

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for the proceeds of special revenue sources that are legally restricted to expenditures for specific purposes. In most cases, these funds do not directly affect the mill rate. The Special Revenue Funds are listed below:

The ***Parks and Recreation Special Revenue Fund*** accounts for all the fees collected for recreation programs and the expenditures needed to operate the program. The revenue projected from programs has been adjusted based upon historical trend. The fund is projected to operate at a surplus in the current and next fiscal year.

The ***Water Pollution Control Fund*** accounts for all the user fees collected and expenditures needed to operate the Town's Water Pollution Control Facility.

The ***Emergency Medical Services Fund*** accounts for all user fees collected and expenditures needed to operate the Town's emergency medical services program (ambulance). Over the past several years, the Town has operated this fund at a deficit. It is anticipated that the fund will operate at a deficit in the next fiscal year.

GENERAL FUND REVENUES AND TAXES

The total revenue necessary to finance the Fiscal Year 2010-2011 budget comes from a variety of sources including taxes, state grants and local fees. As of the writing of this document the Governor's budget has not been presented to the State Legislature. The Governor's budget usually is some indication of anticipated state funding. It is important to note that last years grants to the Town from the state included funds derived from "one time" sources which means the state will have to come up with new funding if this years grant amounts are to remain the same. Also, considering the states current economic crisis, the Town would do well if it was able to maintain current funding levels from the state.

The grand list of October 1, 2010 grew .69%. Although this growth is much better than last year's .24%, it is still low and reflects the decrease in building activity resulting from the current economic climate.

Most local revenues, such as building fees or recording fees are projected to remain flat or increase only slightly.

CONCLUSION

In the past two (2) years budgets have been presented that lowered spending. This was partially accomplished by deferring costs. Some of these deferrals, such as road maintenance, should not be deferred any longer. Although this budget does not address all the capital and maintenance needs of the Town, it begins to lay the groundwork so that through proper planning, they can begin to be addressed in the future. I look forward to working with the Board of Selectmen to adopt a budget proposal that meets the many challenges facing the Town and its residents.

Yours truly,

Robert H. Skinner
Chief Administrative Officer