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Town Manager

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***Town of Bedford, New Hampshire***  
**OFFICE OF THE TOWN MANAGER**

October 26, 2011

To the Members of the Bedford Town Council:

I am pleased to submit to you the Town Manager's recommended 2012 Municipal Operating Budget which is my fifth as your Town Manager. The funding levels proposed within this budget include our revenue and appropriation estimates for all municipal services. This budget allocates the resources needed to support and maintain basic, essential municipal services including limited level of capital equipment projects, funding for our annual capital equipment reserve fund, a fund balance appropriation of \$300,000 to fund the plan established some years ago and provides funding for compliance with regulatory and current contractual obligations. **It is also important to note on another financial side of business, this has been an exciting week: on October 18 we were upgraded to Aaa by Moody's and have the honor of being their only Aaa rated community in NH. On October 19, 2011 we sold \$6m in bonds for our infrastructure projects at a rate of 1.74%!**

For the fourth consecutive year, we are experiencing an economy that has hindered us from improving our Town's infrastructure and our ability for future reserve planning. I can only repeat what you have heard me say in the past: these future costs are not going to disappear and will cost us more in the future. You will notice there is a \$302,271 decline in projected Revenues from last year including \$255,749 from a NH Fire Grant, which also had a corresponding Expenditure in 2011, leaving a decline of only \$46,522 in Municipal Revenues which are identified in the various budgets. We should also note that the NH Revenue Sharing from the State of New Hampshire (\$155,590) which was suspended in 2009 has now been permanently eliminated by our Legislature! It was originally planned to be reinstated in this upcoming fiscal year. The costs of maintaining our level of services to our residents and utilities have increased this year. Our overall operating budget has increased \$322,280 or 1.5% which includes \$210,000 of projected new interest costs for the voter approved \$6 million bond being issued and increased retirement costs of \$120,000 from the State of NH. Although we have a strong assessment base and sound financial management practices, we have again limited the burden by delaying projects that need to be addressed. With that said, the 2012 recommended budget is designed to maintain our delivery of the expected level of services from each operating department with minimal increases. It also includes the elimination of the retirement contribution by the NHRS and Legislature, as well as the additional bond interest from the new Infrastructure Bond approved by the voters in March, 2011. **The Manager's recommended 2012 Operating Budget shows a tax rate increase of 1.9% or \$0.08 for municipal services over the current rate of \$4.23. For the average \$400,000 home valuation, that is \$32 per year.** With the elimination of the NH Retirement contribution, another 03 cents is added and another 06 cents with the addition of a projected \$210,000 in new interest costs on the Infrastructure Bond, for an overall increase of \$0.17 in the Municipal tax rate, excluding the School and County portion.

Included in my recommended budget is our annual appropriation of \$300,000 to increase the General Fund's Fund Balance Reserve consistent with the long term financial plan accepted by the Town Council in 2005. This financial commitment made by the Town Council over the past six years has, in part, contributed to the exceptional bond rating Bedford currently enjoys. This appropriation plays an integral part of our forward thinking financial management and as such the continued inclusion is highly recommended to assist us in achieving our goal of an 8% Fund Balance.

2012 Manager Recommended		
	Appropriation	Tax Effect
<b>General Fund Operating</b>	21,628,300	\$ 4.09
Fund Balance Reserve	300,000	0.09
Total General Fund Operating	21,928,300	4.18
Overlay/Veteran Credits	749,500	0.22
<b>Estimated Town Tax Rate 2012</b>		<b>\$ 4.40</b>
<b>OTHER EFFECTS</b>		
2011 Bond Approval - Interest Only	(210,000)	
Add'l NHRS Costs passed through	(120,000)	
<b>TAX RATE with OTHER EFFECTS</b>		<b>\$ 0.09</b>
<b>Net Tax Rate Controlled by Mgmt</b>		<b>\$ 4.31</b>
<b>Increase Over 2011 Tax Rate</b>		<b>1.90%</b>

### ***Budget Development***

The development of this budget recommendation began in August. The Town Council has been helpful in providing advice and review of our thoughts and budget evaluation at various briefings. Recent weeks have been spent reviewing our specific program needs and citizen expectations, while at the same time attempting to balance service priorities to ensure how we can continue to provide the high quality of municipal services and programs with a reasonable change in the municipal tax rate. For four years now we have been maintaining services with little attention to infrastructure needs. While that has maintained only slight increases in the municipal tax rate, it only highlights the fact that what we call "Our Future Costs" only get higher. That can readily be seen in our "Remaining Issues of Concern NOT Addressed in this Budget" that is identified later in this message. Some are not only reasonable, but costs that we will be incurring in the future, and possibly at higher costs. While developing a municipal budget, we also have to be mindful of the overall tax rate that was approved for 2011, and while the municipal portion of our tax rate represents only 20.6% of the overall blended tax rate, it is the overall tax rate that gets applied against real estate valuation. It has remained our collective opinion that further reductions will cause a reduction of service levels or some level of financial uncertainty. You may recall our estimate for the 2011 municipal tax rate was \$4.21 including the costs forced on us by the State of New Hampshire. You may also recall we reported on October 13 that our municipal rate approved by the NH Department of Revenue was \$4.23, which also includes an increase in Overlay, which is used for tax appeals and abatements which is set at the time of the tax rate setting. We again this year worked with the Town Council as we understand their desire to limit operational expenditures in order to keep the municipal tax rate increase at a reasonable level. Since 2008, our Municipal tax rate increases have been: 2008: 14 cents per thousand or 3.8%; 2009: 18 cents or 4.7%; 2010: 14 cents per thousand or 3.5% including state imposed additional costs; 2011: 10 cents or 2.4% again including additional state imposed additional costs and we are projecting in 2012, a municipal increase of 8 cents or 1.9% and an additional 9 cents which includes yet again additional state retirement costs imposed of 3 cents and 6 cents for new interest costs or a total of 17 cents.

### ***Balancing Needs and Expectations***

Determining the priorities for allocating budgeted resources and the needs of our community is always challenging. We are collectively aware of the services that are expected from our residents, whether it be Police protection and programs, Fire Safety, Health Inspection or Building Inspection issues, road construction, library services, recreation programs, revenue collections or the various Board processes that our citizens are subjected to. Also add to that all the regulatory requirements that are placed upon us by either Federal or State agencies, and one can clearly see the complexity of running government at the local level. There are many levels for us to secure guidance in these processes, beginning with Town Council adopted policies and procedures, the Town's Master Plan and other forward looking strategic plans such as consulting reports and engineering studies which culminate into this recommended operating budget.

Our Capital Improvement Program (CIP) continues to play an important role in the budget development, and yet this year, we find ourselves in a situation of not addressing some of the items that need attention. You will see that we have again this year funded our Capital Reserve Fund with \$528,000 in deposits and \$193,499 in withdrawals. Last year we funded \$ 621,500 in reserves deposits & withdrew \$78,271. In 2010 we funded \$604,000 and withdrew \$453,217.

This recommended budget attempts to allocate only the funding necessary to fulfill the needs and expectations of the Council and the community. As the Town's Manager, we must always be mindful of the ever increasing burden placed upon the Town's tax rate, which is a composite of Municipal, School and County Budgets as well as the State Education Tax (the latter three of which we have no municipal control, but are nonetheless part of our blended tax rate.) We say that as a reminder that the Municipal portion of the 2011 tax confirmed at \$ 4.23 includes the costs forced on us by the NH Retirement system as a result of state legislation. Bedford is a very desirable community in which to live, work, play and raise a family, and our challenge is to maintain the level of services that are expected, at a reasonable cost. This budget has attempted to do just that.

### ***Budget Issues***

As you review this budget, which includes an expenditure increase of \$322,280 or 1.5% over this current year's approved budget, you will notice that Municipal Revenues are down \$302,271 or 3.7% from last year, which includes a \$255,729 one-time Fire grant. Included in the expenditure totals is an additional increase of \$120,000 in expenditures which represents the elimination of the NH contribution to the retirement system, which is a result of NH legislation adopted. While no small number in itself, it is important to note that cumulatively with the loss of Revenue Sharing and the elimination of the NH contribution to the Retirement System, we have absorbed an additional \$410,668 in direct costs in three years or 14 cents of our tax rate. From a municipal perspective, considering all the other economic issues that we are facing, it is clearly unfortunate that the State of New Hampshire budget, as bleak as it may be, was balanced by passing these costs on to local municipalities, school districts and county government; all of which are paid by the local property taxpayer and have no relevance to the local community's ability to deliver services! Last year I mentioned in my message that I did not believe that the State of NH downshifting had ended, and unfortunately we were right; this year we absorb another \$120,000. We still worry that the NH Rooms and Meals Tax may be next and that is \$932,500 in Bedford! Including municipal operations, NH Retirement System additional costs and the new interest costs from the voter approved Infrastructure Bond, our total 2012 proposed municipal budget is \$21,938,300 including \$300,000 for Fund Balance Reserve and \$528,000 in reserve deposits to our Capital Improvement Program. I mention these numbers in total to reaffirm that this municipal budget represents a 1.90% municipal and overall 4.0% increase over the confirmed 2011 municipal tax rate of \$4.23 including state costs and new interest. Regardless of what we may hear from our NH Legislature and Governor, being forced to absorb these costs from the State has hampered our ability to maintain our level of services. As you review our budget recommendation, there are several *current year* budget issues which need to be highlighted:

- As you may recall, the Council engaged the independent consultants from MRI in 2006 to conduct a review of our Police and Fire Departments. Their final report highlighted a staffing shortage, among other deficiencies, which the Council continued to address by partial funding for 3 new positions within the Police 2008 budget. Since that time we have not funded any further additional positions recommended, and the additional 3 positions recommended have not been funded since that time. In addition, in 2011 the School District eliminated one of the two School Resource Officers, and fortunately, we were able to reassign that officer to a vacant position. However, that has resulted in a \$50,000 reduction in our revenue budget.
- As you are aware, the Town has established financial policies and practices which address the guidelines for maintaining fund balance, utilizing operating funds for capital investments rather than debt financing and building necessary capital reserves for future

capital equipment replacement and projects. In accordance with these policies and practices, I have included the following in my recommended budget:

- ✓ The appropriation of capital reserve funds for future capital equipment purchases and replacement as well as future capital projects in the amount of \$ 528,000.
- ✓ Again this year, we have continued to budget a fund balance reserve appropriation of \$300,000 to ensure the Town's future stability and to protect the Town against current and future risks. Although this is a decrease of \$130,000 for the second year, prudent spending has allowed us to add additional expenditure savings and revenue at the end of this past year into our fund balance which currently sits at \$6,293,207. The current stability of the Town and the strength of its financial management can be measured by our bond rating with Moody's Investor Services, a major credit rating agency. We have had a Aa1 bond rating since 2004 **and just last week, we were upgraded to Aaa status, Moody's only currently rated Aaa community in NH! That contributed to our \$6m bond sale on October 19 at a rate of 1.74%!**
- ✓ Although our current Debt Service has decreased \$90,149 from last year, this year's Debt Service principal and interest payment of \$2,656,765, our outstanding general fund debt will be \$ 9,250,000 in principal before the issuance of the \$6,000,000 Infrastructure Bond sold on October 19, 2011. We were able to structure that bond repayment to only include an estimated \$210,000 interest payment in 2012, thus the overall increase in Debt Service of \$119,851. With the sale of the bond last week, the Council will be able to reduce the projected new interest cost once the rates are confirmed. That said, we need to remember that in 2013, we will incur an additional \$670,000 of principal payments plus interest for repayment of that Bond. In addition, there remains \$7,200,000 authorized on the overall \$13.2m bond approved in March, 2011. A detail of our outstanding debt is attached in the 'Debt Service' section of the budget. Our overall debt capacity is 3% of overall equalized assessed valuation.
- ✓ We have been discussing the advantages of moving the Town to a Fiscal Year for some time. There are many advantages to a fiscal year, and although we did have that discussion again this year, I continue to recommend that the discussion continue with the dialogue centering on the timing, funding method and advantages of such a move for the Town.
- ✓ You may recall that in 2008, the Town had not prepared for the cost of a 53<sup>rd</sup> week of payroll related services, (an anomaly that occurs every six years). As a result, we budgeted \$261,141 that year. To prevent that from reoccurring in future years, we had recommended \$50,000 per year be budgeted in the last three years for that future purpose which will occur in 2014. Although there are funds in our Accrued Payroll account to possibly cover the payment in 2014, we should remember that the anticipated future cost of \$300,000 will either have to be budgeted or be transferred by the fund mentioned. That said, balances in Accrued Payroll should primarily be used for retirements and future unfunded OPED payments (Other Post-Employment Benefits.) To date we have not accrued any additional funds to cover that 53<sup>rd</sup> week cost thus far in preparation of 2014.

Last year we reviewed all "outside" costs that are not directly associated with the running of our Town government and eliminated some of those costs: Transit bus service, \$43,200, funding to the four outside service agencies that we had previously funded totaling \$13,020, and again this year eliminated the \$2,000 cost for a parade sponsored by our veterans groups that should be funded by outside groups. We reduced Unallocated Reserve to \$50,000 last year and by watching it carefully, are able to maintain that reserve again at \$50,000. As a result of increased legal costs, some of which have been forced onto us, our Legal budget remains at \$120,000: \$60,000 for general costs, \$40,000 for assessing appeal cases (Overlay affected) and another \$20,000 for labor negotiations. Should those contracts be completed in 2011 and some of the legal suits be resolved, the Council may perhaps be able to reduce those costs before moving the budget to public hearing. Historically, I make no changes to the budgets submitted by elected officials: Town Clerk, Moderator (elections) or Checklist Supervisors. I leave that to the elected Council members to review and evaluate. Although we have an Economic Development initiative overseen by our volunteer Business Resource Group (BRG), we have budgeted funds for the BEDC's recommended position for two consecutive years, only to have the position removed. There needs to be a community commitment and discussion of this initiative and therefore we have not funded it again this year.

We have three labor contracts currently in force, with two expiring at the end of this calendar year. Both of those contracts are in negotiation. As a result, I have removed all possible merit or contract increases from all individual budgets and all are included in a budget line item titled Payroll Adjustments, as we did back three years ago. That amount is \$218,700 and the discussion of which is not detailed any further due to outstanding labor negotiations.

The Town continues to budget for normal retirement contribution costs which are annually subjected to contribution rates. You may recall that for the past two years we have incurred 10% of the NH Retirement System costs that were previously paid by the State. This year the Legislature eliminated the remaining 25% contribution for fire and police, thus forcing yet another additional \$120,000 upon our operating budget! This was a direct result of the passage of HB 1645 signed into law in 2008 and further legislation passed this past year in SB 3. We have seen an overall increase in our combined Insurance premiums of 6.4% of overall costs, down from the projected overall costs of 12%. That was accomplished by a change in the co-payment rates in our health contracts and a switch in our property and liability insurance as a result of competitive bids. We are hoping that our bargaining units agree with that premium change.

Our Energy Commission established by the Council continues to investigate various alternatives to assist the Town in achieving savings in our energy costs. While energy providers may well provide savings, we have buildings that are very energy inefficient that would require significant investment for that efficiency alone. One of the Council's goals and that of the administration is to identify all of our Town facilities and develop a plan to have all of our buildings not only energy efficient but facilities that deal effectively with our delivery of services. That review is underway and will continue into next year as a result of the Infrastructure Bond that was voter approved.

We continue to see savings in our Single Stream Recycling program which has allowed us to keep our tipping costs low. They may again be reduced after the introduction of this budget, as we are currently reviewing contract bids for the hauling services (tipping fees).

Lastly, we need to highlight the issue of slow, and in some cases static, revenue growth. For the past few years we have seen tapering revenues in our major local sources such as motor vehicle and building permits. This trend has increased slightly and is expected to continue in 2012 and therefore we have budgeted conservative revenues based on current trends, which do not include the one-time \$255,749 Homeland and Swiftwater grants in the Fire Department last year. These are municipal revenues exclusive of real estate taxes.

### ***Staffing Equality and Funding Issues***

It goes without saying that the most significant portion of any municipal budget is related to personnel service expenses. The municipal services provided to our community which contributes to the quality of life here in Bedford would not be possible unless provided by a competent, resourceful and dedicated group of employees. We have three bargaining units, two of which (fire and public works) have contracts currently in negotiations, as well the police contract currently in its third year and a group of non-union employees. When we discussed the fiscal guidelines for this budget, we also discussed various alternatives presented to us in this area. After a review of many various alternatives, we determined that we could deliver our budget within the guidelines if we treated all our employees, both union and non-union uniformly. You are aware that our contracts are negotiated, ratified by the unions and approved by the Council in good faith. I do thank the Town Council members for their support in this initiative. As I mentioned earlier with two contracts in negotiations, all salary adjustments are included in one account (Payroll Adjustments) for all employees, to be determined and distributed at a later date. Therefore, this budget contains the contract funding required as well as funding for contracts in discussion and non-union employees.

With all of that said, we should understand that we are a service delivery organization and as such is very labor intensive. Delivering quality services requires manpower, and a look at our personnel numbers, they have not increased overall since 2007! This budget also includes an engineering position for half a year, restructuring funds and savings in Finance and Planning. After discussions

with our new Police Chief, the changes made to their budget will perhaps be readdressed following his complete review of the department staffing, services and costs. It is anticipated that that will have been completed before the Council forwards their recommended budget to public hearing.

***Remaining Issues of Concern NOT Addressed in this Budget***

With our continued goal to provide a budget that is reasonable and practical to deliver services on the expenditure side which includes additional interest costs for a voter approved bond issue, we are still forced to add yet another \$120,000 of additional NH Retirement Costs not covered by the State of NH. As we begin to experience stable yet slightly increased revenues projections for 2012, we believe that goal has been accomplished. With relative stable costs and revenues, again in 2012 we need to address challenges to our property valuations primarily in the commercial area, which has seen modest increases, yet those challenges increase our Overlay account from time to time, which is used to settle any such challenges and appeals of assessments. We have certainly outlined many of the other challenges we face, none of which are overwhelming but need our attention. We continue to see legal challenges on many fronts which we need to address, understanding that many of those challenges were not initiated by the Town but need our attention.

We need to be mindful of the fact that our local roads program is in no way completed, in fact, it is now three years further behind due to the lack of approved bond issues. With the approval of the \$13.2 million Infrastructure Bond this past March, we will be able to address many of those outstanding road improvements totaling \$30 million, as well as other infrastructure needs we face.

In addition, there remain other areas of concern that we will need to deal with. The following list is what remains from my messages over the last four years of what I call "Future Costs". I continue to include them as a reminder of items that we need to tackle in addition to normal operating costs. We will have to address them in the future. You will see some have been completed, some are included this upcoming year and some remain that have not had our attention. These will all require our attention for future consideration and all require funding:

- Replacement of Park/Recreation Building on Nashua Road
- Complete the remaining years of funding from the MRI Study following internal review.
- Continue replacement of outdated and old Public Works Equipment
- Reserve funds for improvements needed to Rts. 3 and 101: (est. at over \$1.75m annually)
- Funding for GASB 45 Employment and Post Employment Liability
- Future Land for Town Cemetery expansion
- Review of Town's overall staffing program, including salary structure review
- Continue funding and expansion of our Capital Equipment Reserve program.
- Replacement, Renovation or Expansion of current Town Office facility as well as other outdated and problem facilities. In other words a formal Municipal facilities study. (*Current funding included in our approved Infrastructure Bond.*)
- Plans for a new South Side fire substation (*Funding in Infrastructure Bond*) & staffing.
- Decision, development and funding of additional Library parking
- Continue funding our Budgetary Fund Balance Retention. Our Fund Balance sits at \$6,293,207, with an additional 2011 appropriation of \$300,000 anticipated at year end. With the budgeted \$300k plan in 2012, that would increase to \$6,893,207 or 8.7%. GASB and others in the financial community recommend retention of between 8% and 17%. We have been improving each year.
- Development review for upgrading other recreational fields and facilities; funds were removed in 2011 & 2012 budget-there is no plan. (*Discussion of a fee for service plan for outside leagues and other maintenance issues being discussed by an Ad Hoc Committee.*)
- Funding for the installation of CAD software and equipment
- Funds for a reverse 911 or similar notification plan
- Reserve funding for the next 53<sup>rd</sup> Week Payroll year in 2014.
- Funding and support for an Economic Development function and the process. The BEDC made its recommendations to the Council in December, 2009.

Items that have been addressed or completed are the following:

- ✓ Completion of the financial software implementation and data conversion project to Munis.
- ✓ Approval of a \$13.2 million Infrastructure Bond Issue. (*Approved & \$6 million sold*)
- ✓ Approval and implementation of Tax Increment Financing districts. (*Completed*)
- ✓ Upgrade needed in our Information Technology area. (*Completed & in implementation stage.*)
- ✓ Installation of Planning, Building and Permitting software and equipment. (*Completed.*)
- ✓ Replacement and upgrading of the town's website. (*Completed and ongoing*)
- ✓ Funding for the reconstruction of the Gault Road project. (*Completed and open*)
- ✓ Formal Codification of our Town Ordinances. (*Completed*)
- ✓ Last phase of HVAC replacement at the safety complex (*Included in Infrastructure Bond*)

### ***Change to a Fiscal Year***

We are certainly the size and complexity to address our current calendar year make up which poses many awkward and cumbersome fiscal constraints: We review a budget before the calendar year begins; the budget year starts three months in advance of the budget approval at the Budgetary Town Meeting; our tax rate for the current year is set in October of the same year, meaning we collect real estate taxes in arrears which does little for our cash flow and increasing fund balance and we are out of sync with the School and State fiscal years. Should there be State budget issues that affect our local government again this upcoming year, the approval of those changes become known with half of our year completed [as you know, that occurred again this year!] Special legislation is available through the State Legislature to address this issue. There are now a variety of ways in which we could make this transition. In that way, we would change to a fiscal year which would begin July 1 and our budgets would get presented, reviewed and approved *prior* to the start of the fiscal year. With that said, and the discussion begun, we were asked to begin the process by developing all the strategies that would be needed to move in this direction. In that way, the community would have an opportunity to discuss this option and make a logical decision based on the merits of such a move. That will be one of our next initiatives to work on.

### ***Our Economic Development Initiative and TIF Proposal***

In December, 2009 the Town Council received the report and recommendations of the Bedford Economic Development Commission which was formed three years ago. Part of their recommendation to the Council included an action plan to achieve these goals. "Doing nothing should not be an option." To date, we have not been successful in funding the economic development initiative, and as a result, as I mentioned earlier, I did not fund this position again this year. Although we have an active volunteer Business Resource Group (BRG), we need to continue the discussion on the recommendations of the BEDC in 2009 and develop some policy methods of accomplishing the tasks outlined. Without community commitment, no funds are allocated in this budget for that initiative.

With the approval late last year of the proposed Tax Increment Financing (TIF) district on South River Road, the voters approved a revenue bond issue for infrastructure road improvements within the district in the amount of \$4.1 million. The plan remains not to act on a bond issue until we have accrued what would be the first bond payment in "new" taxes generated from growth within the district. With most of this new development underway this year (rebuilding of the Bedford Mall and Washington Place to name a couple) that should not occur this year. We also need to remember that the "new growth" from this development does not accrue to our changes in overall assessments until the revenue bond is paid off. That will have an affect on our valuation changes from year to year for that period. That said, we are fortunate to be experiencing these very positive development changes in Bedford. These are exciting times which also include decisions ahead of us.

### ***Acknowledgements***

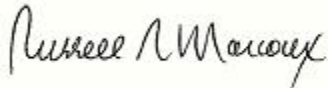
We continue to have a very stable financial picture considering all the varied challenges that we face. We also need to remember that many of these challenges that are being delayed will eventually have to be addressed, and will undoubtedly force us to increase additional infrastructure costs with the many projects that remain to be addressed. As you can see, these are all challenges that continue to face the Town of Bedford. None of those challenges are out of our reach, but at the same time, most of which have to be done in a cooperative manner. We appreciate our Finance Department staff, and specifically our Finance Director, for their outstanding management of the Town's finances and all of our department managers who continually participate in keeping an eye on our expenditures and in

the preparation of this recommended budget. We are very fortunate with their dedication to good government and deserve a sincere “thank you” for their time and assistance in the administration of our town government. Working with the Council in developing guidelines to follow, we can all see that this budget represents a fourth consecutive year with a “basic maintenance budget”. That is clearly seen in the minor changes that were made to the budget requests and ultimately in this recommendation.

I also want to express my thanks to the Town Council for your leadership and assistance on many of our Town’s issues this year and for your continued support in maintaining good government with all its challenges. This is a document that we have all worked on together, from guidelines to preparation and will continue to work on.

This is a lot of information to digest, not only in the budget document but in the area of discussion of the plans that need attention in our Town’s future. Our department managers and our employees understand the fact that the fiscal health of Town government is tied to a sound, sustainable local economy and an excellent quality of life. This message and various 2012 budget documents will be on our website, as well as a new set of 2012 “pie chart” descriptions of our municipal budget, along with Council review workshops and a cable program that start on November 2.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Russell R. Marcoux". The signature is written in dark ink and is positioned below the typed name.

Russell R. Marcoux, Town Manager



## Town of Bedford - 2012 Budget Analysis

### ***Budget Development***

The Town's budget process commences in the summer with the compilation of our ten-year Capital Improvement Plan (CIP). All capital related expenses of \$10,000 or more for items with a useful life of three years or greater are included in the CIP. These items are identified for bonding, operating budget or some other type of financing. The department heads are responsible for submitting their CIP project worksheets, which are compiled and presented to the Planning Board for review. Project costs affecting the current year budget as well as general operating and fixed costs are included in each department's budget request. These budget requests are reviewed with the Town Manager through a series of meetings. After such meetings, the Town Manager makes any final adjustments to the recommended budget. As stated previously, the recommended budget is closely scrutinized in an effort to meet the needs of the community while remaining sensitive to the effects on the Town's tax rate. As such, there are several CIP projects identified by the department heads which do not receive funding in the current year budget. Some projects are cancelled while others are postponed, again in an effort to allocate resources based on the priorities of the community.

The Manager's recommended budget is presented to the Town Council, typically in October of each year. The Council may add to or cut from these recommended appropriations by majority vote. Once the Council has made any changes they deem necessary, hearings are held for input from the public. The Council then brings the finalized budget to the citizens for a vote to adopt at Budgetary Town Meeting in March. During this meeting, citizens are able to add to or cut from the Council's recommended budget by majority vote.

### ***Appropriations***

The General Fund appropriations account for 90.6% of the total operational spending for the Town. General Fund appropriations cover all general government services, such as fire, police and public works, which are not otherwise accounted for in a special revenue or proprietary fund. Special revenue funds, such as planning board fees and recreation impact fees account for 0.2% of Town spending and are restricted to specific areas of spending. These special revenues are appropriated through the budget process in order to transfer those funds to the General Fund to cover operational and administrative costs of those functions. The proprietary funds include sewer, police special detail, day camp and BCTV account for the remaining 9.2% of Town spending. These funds are self supporting which means their operating expenses are covered by the collection of user fees, therefore having no impact on the tax rate.

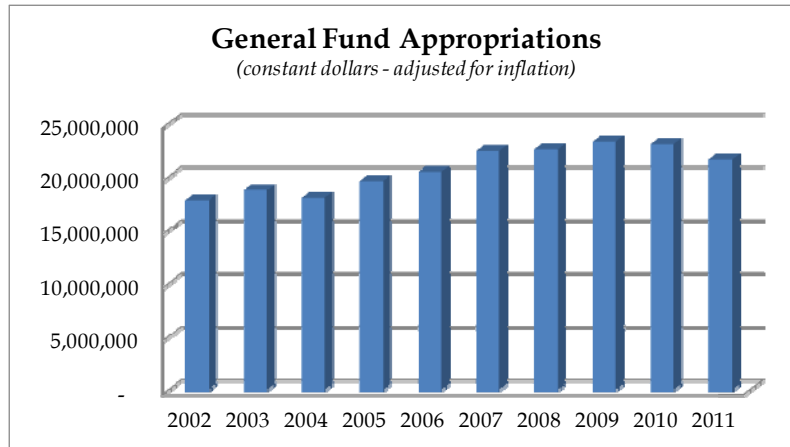
<b><i>Fund</i></b>	<b><i>Appropriations</i></b>	<b><i>% of Total</i></b>
General Fund	\$21,928,300	90.6%
Special Revenue Funds	48,000	0.2%
Proprietary Funds		
Sewer	1,272,638	5.3%
Police Detail	502,158	2.1%
Day Camp	105,825	0.4%
BCTV	353,034	1.5%
Total Proprietary Funds	2,233,655	9.2%
<b>Total All Funds</b>	<b>\$24,209,955</b>	<b>100.0%</b>



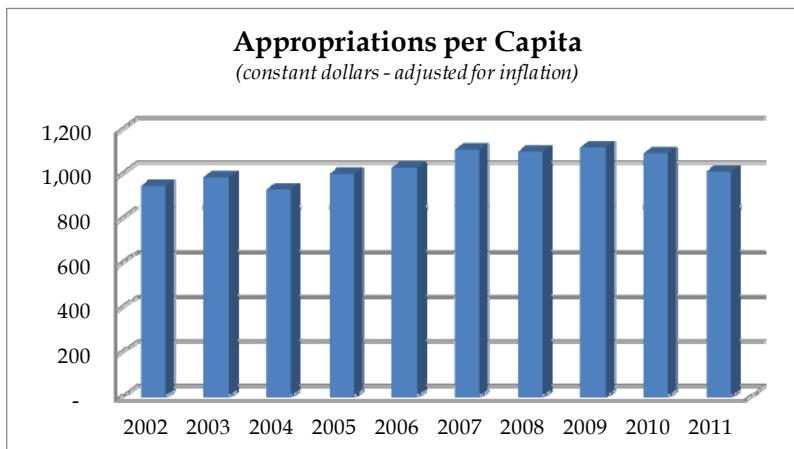
## Town of Bedford - 2012 Budget Analysis

### Historical Information

The following two graphs compare General Fund information for the past ten years. The amounts presented are shown in constant dollars (i.e. adjusted for inflation), therefore we are able to compare buying power of funds over the past ten years. For example, the Town's General Fund appropriation for 2002 was \$14,094,890. To purchase the same goods and services today, 2011, the cost would be \$17,776,410. This calculation is based on the Consumer Pricing Index (CPI) reported by the U.S. Department of Labor – Bureau of Labor Statistics for 2002 through 2011.



Of course, the major driving factor behind the increase in Town services has been and continues to be growth. As our population increases, the need and demand for services increase as well. If services remain constant and the cost of such services is adjusted for inflation, we would expect to see cost per capita remain constant as well.





## Town of Bedford - 2012 Budget Analysis

### General Fund Appropriation Summary

The 2012 recommended General Fund budget for the Town is \$21,928,300.

The following table reports the major components of the Town appropriations. As discussed previously, personal service expenses account for a significant portion of any municipal budget and Bedford is no different. The total increase in personal services amounts to \$276,862 or 2.33% which includes the funding of increased costs of taxes, retirement contributions, workers' compensation and insurance, as well as existing employee merit increases. These components are discussed in greater detail below.

<i>Appropriation</i>	<i>2011</i>	<i>2012</i>	<i>\$ Change</i>	<i>% Change</i>
Personal Services	\$ 11,878,392	\$ 12,155,254	\$ 276,862	2.33%
Contractual Services	667,576	717,042	\$ 49,466	7.41%
Capital Outlay	2,210,828	2,255,824	\$ 44,996	2.04%
Debt Service	2,746,914	2,866,765	\$ 119,851	4.36%
Other Expenses	4,102,310	3,933,415	\$ (168,895)	-4.12%
<b>Total</b>	<b>\$ 21,606,020</b>	<b>\$ 21,928,300</b>	<b>\$ 322,280</b>	<b>1.49%</b>

### Appropriation Increases by Component

#### Personal Services

- Staffing Increases: The recommended budget does not include any staffing increases for 2012. However, the independent organizational study conducted by MRI for the Police Department, recommended staffing increases for 2010 (unfunded) and 2011 (unfunded) and now 2012 (unfunded). Once we have reached the recommended staffing level in a future budget, the organizational structure will have reached a high level of operational effectiveness and will be better positioned to address the high demand for services of the community.
- Health, Dental and Other Insurances: The insurance increase is included at a 15% increase for health and 5% for dental. The guaranteed maximum rate (GMR) issued by the Town's carrier was just released on October 25, 2011 and came in at an unprecedented amount of 1.0%, therefore the Council will be able to adjust the appropriation accordingly. We have also included a 5% contribution from all employees who are enrolled in the HMO plan and a 10% contribution from all employees enrolled in the POS or Indemnity plans, in compliance with the Town's personnel policy as well as both the police and fire union contracts. The life insurance as well as short and long term disability plans are static as a result of our favorable experience rating.
- New Hampshire Retirement: The employer contribution rates set by the New Hampshire Retirement System (NHRS) used to fund the system are set every two years. However, during the 2009 legislative session the NHRS rates previously set were increased to pass on a portion of State costs to the local municipalities during 2010 and 2011. This trend of slowly passing State costs to the locals is expected to continue as the funding for this retirement system remains unstable. These rates are applied against gross wages. The following table shows the last 6 rate increases issued by the NHRS as well as the most recent increase effective for July 2011.



## Town of Bedford - 2012 Budget Analysis

<i>Employee Group</i>	<i>Effective July 1, 2001</i>	<i>Effective July 1, 2003</i>	<i>Effective July 1, 2005</i>	<i>Effective July 1, 2007</i>	<i>Effective July 1, 2009*</i>	<i>Effective July 1, 2010</i>	<i>Effective July 1, 2011</i>
Town	4.14%	5.90%	6.81%	8.74%	9.09/9.16%	9.16%	8.80%
Police	5.33%	7.87%	9.68%	11.84%	12.68/13.66%	14.63%	19.95%
Fire	6.61%	13.44%	14.36%	15.92%	16.05/17.28%	18.52%	22.89%

*\* amount increased during 2009 legislative session*

The 2012 budget reflects an increase in employer contributions to the NHRS. It is anticipated that 2012 may have even more increases to retirement costs passed through from the State of NH, however we will not know for certain until the summer of 2012.

### **Debt Service**

- The Town's debt service is a net decrease of \$90,149 which is directly attributable to the reduced interest payments due for 2012 collectively among all general obligation bonds. However, with the inclusion of the October 2011 Infrastructure bond issuance, total debt service payments will increase slightly.

### **General Fund Revenues**

General Fund revenues are estimated at \$21,928,300 or 1.49% above last year. Property taxes represent 64.3% of the General Fund's funding.

<i>Estimated Revenue</i>	<i>2011</i>	<i>2012</i>	<i>\$ Change</i>	<i>% Change</i>
Property Taxes	\$ 13,470,821	\$ 14,095,372	\$ 624,551	4.64%
Municipal Revenues	8,135,199	7,832,928	(302,271)	-3.72%
<b>Total</b>	<b>\$ 21,606,020</b>	<b>\$ 21,928,300</b>	<b>\$ 322,280</b>	<b>1.49%</b>

### **Property Tax Rate**

The Property Tax Rate applies to each \$1,000 of assessed value of property in the Town. The rate is calculated by dividing the net appropriations (total General Fund appropriations less Town revenues) by the net assessed valuation (total assessed valuation less exemptions).

The following table reflects the change in the estimated property tax rate that results from this recommended budget. Net local assessed valuation for 2011 was \$3,361,577,508. For 2012, we are estimating a \$10 million increase (0.30%) or a net local assessed valuation of \$3,371,577,508.

<i>Tax Rate</i>	<i>2011 Tax Rate</i>	<i>2012 Est. Mgr Budget</i>	<i>\$ Change Manager</i>	<i>% Change Manager</i>	<i>2012 Est. with State Effect</i>
Town	\$4.23	\$4.31	\$0.08	1.90%	\$4.40

### **Tax Rate Comparison**

The Department of Revenue Administration (DRA) takes the local tax rate of each municipality and adjusts it as if the local assessments were at full market value (ie. fair market value). By using equalized property tax rates, a comparison can be made among the municipalities as to whether their tax rates are higher or lower. By comparing to the median equalized property tax rate for all municipalities, we can determine whether the Town has a higher or lower overall rate. The table below depicts Bedford's equalized tax rate as compared to the State of NH median.



## Town of Bedford - 2012 Budget Analysis



### Bedford Ranking

2003 - 39 of 225  
 2004 - 90 of 231  
 2005 - 73 of 216  
 2006 - 76 of 222  
 2007 - 108 of 216  
 2008 - 120 of 230  
 2009 - 109 of 220  
 2010 - 109 of 227

### Assessment to Market Ratio

The results of the ratios over the last few tax years are represented below. The percentage shown is the assessed value divided by the market price. The International Association of Assessing Officers (IAAO) considers the ratios of each class of property reasonable if they are within +/- 10% of the overall ratio.

Property Class	2005	2006	2007	2008	2009	2010
All Properties	89.5	87.8	89.4	97.0	101.1	103.7
Vacant Land	78.2	75.8	68.3	100.6	103.8	97.0
Single Family	89.8	88.3	91.0	97.0	101.0	103.3
Condos	86.1	85.2	88.4	95.5	107.2	106.3
Multi-Family Housing	n/a	n/a	n/a	n/a	n/a	n/a
Apartments (4+ units)	n/a	n/a	n/a	n/a	n/a	n/a
Commercial/Industrial	86.6	76.3	77.1	87.9	99.0	98.7
Commercial Condo	83.3	82.6	72.1	95.3	98.9	109.4
Industrial Condo	n/a	63.9	n/a	n/a	n/a	n/a

### Equity in Tax Base

The best measurement of equity throughout the tax base is the Coefficient of Dispersion (COD). The following table reflects the Town's COD by year. According to the IAAO, the measure of equity falls into the following ranges:

- 10% or less = Excellent Assessment Equity
- 11% - 14% = Good Assessment Equity
- 15% - 20% = Fair Assessment Equity
- Over 20% = Poor Assessment Equity

The Price-Related Differential (PRD) is another measure reviewed to assist in determining the fairness of assessments. This statistic measures the relationship between higher valued properties and lower valued properties, and their respective assessments. This statistic should be 1.00 ideally, however IAAO recommends that the PRD fall between 0.98 and 1.03. A PRD over 1.04 indicates a regressive assessment base, meaning higher valued properties are assessed at a lower ratio. Conversely, a PRD under 1.00 indicates a progressive assessment base, meaning that lower valued properties are assessed at a lower ratio.

	2005	2006	2007	2008	2009	2010
Coefficient of Dispersion	8.6	8.3	8.7	7.6	8.8	9.2
Price-Related Differential	1.0	0.99	1.03	1.02	1.03	1.01



## Town of Bedford - 2012 Budget Analysis

### *Other Funds – Proprietary Funds*

Appropriations: The proprietary funds consist of the major Sewer Fund and Other Funds including Police Special Detail, Day Camp, and Bedford Community TV. These funds are self-supporting and are accounted for on the full accrual basis of accounting.

<i>Enterprise Funds</i>	<i>2011</i>	<i>2012</i>	<i>\$ Change</i>	<i>% Change</i>
Sewer	\$ 1,180,194	1,272,638	\$ 92,444	7.83%
Police Detail	519,018	502,158	\$ (16,860)	-3.25%
Day Camp	106,062	105,825	\$ (237)	-0.22%
BCTV	313,906	353,034	\$ 39,128	12.46%
<b>Totals</b>	<b>\$ 2,119,180</b>	<b>\$ 2,233,655</b>	<b>\$ 114,475</b>	<b>5.40%</b>

The Sewer Fund is proposed fairly static at \$1.27m. As part of the rate study which commenced in 2008, the charges for usage are on an incremental increase plan. In 2009, rates were increased 6%, then in 2010, rates increased another 6% effective 1/1/10 and an additional 10% effective 7/1/10. The rate increases are planned at 10% each year for the next 3 years effective January 1<sup>st</sup>. These rate increases will prepare the Town for significant capital cost increases relative to treatment plant expansion and additional capacity purchase through Manchester Water Works.

The Police Special Detail fund remains virtually static with the exception of a slight decrease due to the number of special officers utilized for details as opposed to full time sworn officers, which also carry full-time benefit costs. The Day Camp fund remains fairly static and is significantly less than 2 years prior due to a fee structure change implemented in 2011 which led to a decline in attendance. The Bedford Community TV fund proposes a \$39k or 12.5% increase due to general operational increases and capital equipment purchases.

### *Financial Condition*

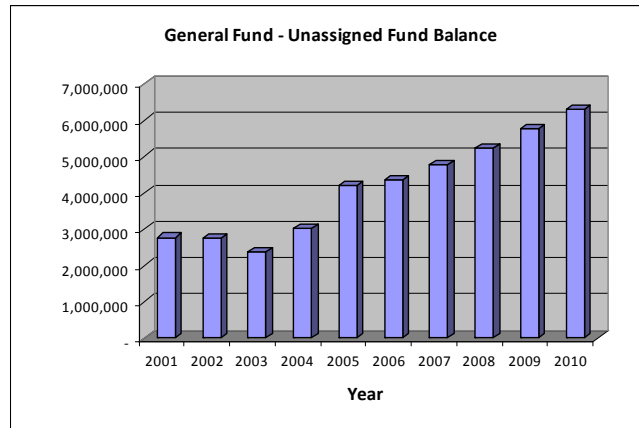
The Town's General Fund ended 2010 with an increase in Undesignated Unreserved Fund Balance of \$516.7k, bringing the balance in this account to \$6,293,207. The Town Council adopted its Fund Balance Reserve Policy in March 2005, whereby reserves maintain a minimum balance of 5% with a target balance of 8% of the Town's total General Fund appropriations (including the School and County appropriations). The fund balance figure noted above represents 8.5% of total appropriations.

<i>Fund – Unreserved Bal.</i>	<i>2010</i>	<i>2011 est</i>	<i>2012 est</i>
General Fund - unassigned	\$6,293,207	\$6,593,207	\$6,893,207
Sewer (unrestricted)	91,730	95,000	100,000
Police Special Detail	206,232	210,000	212,000
Day Camp	9,330	7,500	5,000
Bedford Community TV	107,915	100,000	50,000
<b>Total</b>	<b>\$6,708,414</b>	<b>\$7,005,707</b>	<b>\$7,260,207</b>

As indicated previously in the Town Manager's Budget Message, the financial strength of the Town is assessed in part by our liquidity and our ability to meet ongoing obligations. The health of our fund balance reserves directly attribute to these functions. Furthermore, the current stability of the Town and the strength of its financial management can be measured by our bond rating with a major credit rating agency, Moody's Investor Services, which rates the Town at Aaa. This distinction is held by only one exceptional local government in New Hampshire, Bedford.



## Town of Bedford - 2012 Budget Analysis



### Local Economy

The outlook on the New England economy appears to be in an upward trend. Although the current recession (referred to as the ‘Great Recession’) has yet to be declared officially ended, various economic indicators point to that conclusion. Job growth has shown some promise over the last year, particularly in New Hampshire. Consumer spending is on the rise and consumer confidence has reported a strong upswing. Unemployment rates are on a steady decline and New Hampshire’s rates continue to be significantly below New England and even more favorable as compared to the US. However, a common trend we are seeing among local governments is a level tax initiative which is causing some significant budget shortfalls being plugged by employee layoffs.

Bedford’s economic indicators include the following:

- Real estate transfers at 4.7% of taxable parcels in 2010.
- Equalized value per capita for 2010 was \$153,312, a decrease of 3.0% over 2009, \$160,048.
- Unemployment rate for 2010 was 4.5%, well below the State and U.S. rates of 6.1% and 9.6% respectively.
- Uncollected taxes at the end of 2010 were 3.75% of the current tax levy (\$2,913,664).
- Motor vehicle permits increased slightly during 2010 from 23,611 to 23,670 vehicles.
- Building permits increased in 2010 with 33 permits being issued compared to 20 in 2009.

