



David R. Caron
Town Administrator
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April 1, 2024

Members of the Town Council
Derry Municipal Center
14 Manning Street
Derry, NH 03038

RE: Town Administrator's FY25 Budget Proposal

Councilors:

Presented herewith is the Town Administrator's proposed FY25 Budget which funds municipal services to residents, businesses and visitors to the community for the period of July 1, 2024 – June 30, 2025.

There are three themes which represent the spending package as proposed:

- I. **Financial Planning** – This budget continues towards long-term financial planning necessary in a tax cap environment by maintaining a multi-year projection of all expenditures, specifically operating expenses. This approach allows the organization to anticipate personnel and operational needs and develop a plan to meet those needs. Further, this budget recognizes opportunities presented by revenue growth by dedicating those funds to anticipated mid-term needs.
- II. **Rebalancing the Budget** – Higher than normal inflation has chipped away at the organization's buying power; this budget attempts to address some of those shortfalls in critical areas to ensure that resources are available for equipment repairs, IT security and other operational needs which maximizes our efficiencies in service delivery.
- III. **Capital/Operational Budget Allocations** – It is important for the organization to maintain a balance between capital needs/debt service and operational expenses when allocating those tax dollars available under the voter approved tax cap.

Thanks to the Council foresight when approving the FY24 budget and ongoing budgeting discipline, resources continue to be reserved for capital and long-term needs to avoid funding challenges which prevailed back in the previous decade.

Executive Summary

- *Limits tax rate to \$6.09, the increase authorized by the taxpayer-approved Tax Cap (Section 9.4 – Charter).*
- *Fully funds existing collective bargaining agreements approved in FY22, and the two collective bargaining agreements approved for FY25, including significant increases in health insurance costs.*
- *Consolidates three permanent part-time positions into two full-time positions.*
- *Adds a second Canine Unit to the Police Department which also provides flexibility in the Patrol Division.*
- *Capitalizes on an opportunity to pre-fund debt service on the Central Fire Station project and stabilize the Compensated Absences Fund.*
- *Reinvests a portion of the excess investment proceeds from the Central Fire Station Bond back into the project.*
- *Funds Fire paramedic training to address staffing challenges.*
- *Accelerates the implementation of the Tax Increment Finance Districts Development Programs to support additional economic development growth and to fulfill service responsibilities.*
- *Maintains balance of resource allocation between operating and capital expenses.*
- *Continues to utilize resources from the Derry Economic Recovery Trust for the multi-year stabilization of town finances.*

Overview – Due to the significant project at the Wastewater Treatment Plant and the recommendation to reinvest excess revenues, the bottom-line increase to the budget is significant at over \$17M. However, it should be noted that the tax rate increase is 2.6%, and the increase to operational expenses is limited to 4.45%. Here is what’s driving the bottom-line:

- The Town’s Wastewater Division needs to rehabilitate its lagoon system, which is used to treat wastewater. The project includes the removal of sludge from Lagoons 1 & 2 and

improvements to those lagoons as well as Lagoon 3, including liners, geotextile cushions, and baffles. Project cost is estimated at \$14M.

- The Town experienced appreciable revenue growth in FY23, particularly with the investment of the Town's idle cash. This has resulted in an Unallocated Fund Balance (UFB) exceeding that required in the Town's UFB policy by over \$2M. These funds represent an exceptional opportunity to pre-plan and address future or one-time obligations such as:

- Central Fire Station Debt Service – The Town was able to proceed with construction of the station under the Town's tax cap by employing a number of strategies:
 - Use of \$1M in ARPA funds from the federal government
 - Initial use of \$1M in Town UFB
 - Raising \$750,000 under the tax cap annually
 - Shifting retiring debt service on other projects to pay for this project.

As the Council approved the project, it was acknowledged that significant amounts of retiring debt service would not be available for this project for several fiscal years. The plan was to use some amount of UFB each year until FY34 when retiring debt service would be more readily available and, in fact, begin to reduce the original \$750,000 tax dollar allocation to the project.

With the current availability of excess UFB, it is recommended that \$1,025,000 be transferred to the Fire Facilities Capital Fund which will fund UFB's share of the debt service for FY25-FY28.

- Compensated Absences Capital Reserve Fund – This fund was created many years ago and was part of the annual distribution of excess fund balance, under Council policy, along with reserve funds for Police, Fire, Public Works and IT. Recognizing the needs of the organization, the Council revised the policy in 2019 to remove the Compensated Absences CRF from the formula, add the Expendable Maintenance Trust Funds for Buildings and Grounds, and accelerate contributions to the remaining funds. At that time, the CACRF maintained a balance in excess of \$3.6M.

Although the Town annually budgets over \$400,000 for compensated absences in the annual budget, due to a demographic bubble of retiring employees, the amount

in the fund has been drawn down to \$1.7M. At some point in the future, the Council will have to consider further revisions to the policy to restore annual UFB contributions to the fund. At this time, however, staff is recommending that \$675,000 in fund balance be appropriated to the CACRF.

- Employee transitions – The Town Administrator and Planning Director will be retiring in FY25. To ensure smooth transitions for both positions, it is recommended that \$70K be obligated for this transition. It is recommended that the Council onboard the incoming Town Administrator as of March 1, 2025, which would allow the new TA to, among other orientation responsibilities, participate in FY26 budget development with staff (\$50K) and some lesser time for the incoming Planning Director (\$20K).
- Capital Improvements Program – The Town’s funding target for a majority of the CIP has remained consistent at \$1.5M; recognizing inflationary pressures, the proposed target in the FY25 budget is recommended at \$1.575M, to be adjusted annually for inflation going forward. For FY25, it is recommended that \$75K be added to the various funds under the current allocation formula.
- Central Fire Station Project – The Town anticipated some cost increases with the station during these inflationary periods. To provide a hedge against increased costs, staff anticipated allocating some interest earnings from the reinvestment of bond proceeds towards construction cost. Accordingly this budget includes a \$1.0M transfer from restricted interest earnings to the project.

We are appreciative of the Council’s continued support and leadership with the creation of reserve funds to stabilize town finances until traditional revenue sources generate customary revenues. As a result of these efforts (and the ongoing discipline to transfer any credits or rebates from our insurance carriers to the CBA Implementation Trust), the Town is well positioned to stabilize budgets in the mid-term:

<i>Budget Stabilization Resources</i>	
CBA Trust	\$ 1,480,433.00
Derry Recovery Trust (ARPA)	\$ 1,009,186.00
COVID-19 Trust	\$ 606,319.00

It should be noted that ARPA funds must be obligated by 12/31/24 and expended by 12/31/25. The Town’s stabilization plan anticipates the use of these funds to offset operating costs through 12/31/25.

Items of Note for the FY 25 Budget:

- Capital Projects, the Expendable Maintenance Trust, Public Utilities, and the Town's two Tax Increment Financing Districts continue to be presented outside of the General Fund Operating Budget, which will allow for a more accurate comparison of recurring operating expenses from year-to-year.
- The Council has been fiscally responsible for allocating a portion of property tax revenues for capital projects. For some years now, the organization's goal was to allocate at least the amount dedicated to the FY18 debt service to capital needs. The target was increased by \$250,000 in FY19 as fiscal capacity allowed for that appropriation to the Capital Reserve Programs, growing to \$300,000 by FY23. In FY24, the Council increased that allocation to \$650,000. The financial plan for the Central Fire Station project envisioned using \$750,000 in property tax receipts annually, along with any declining debt service on other past issuances to fund the project. That plan envisions the tax contribution for the Central Fire debt service gradually declining beginning in FY34 (\$675,000), migrating to \$40,000 in FY48.
- Continued allocation of appropriate operating and capital expenses from operating budgets (primarily DPW) to the Derry Commerce Corridor and Gateway TIF District budgets to more accurately identify direct expenses for Downtown, (Derry Commerce Corridor) and 4A Corridor activities. In FY25, it is proposed to add a position in DPW and purchase a dump truck to maintain extensive roadways within the Gateway District, particularly the multi-lane expansion of Folsom Road.

Listed below are key budget facts to guide your deliberations:

<i>FY25 Budget Groups</i>			
	FY24	FY25 Proposed	Change
General Fund	\$48,962,306.00	\$54,341,784.00	10.99%
Capital Investments	\$1,547,441.00	\$2,484,995.00	60.59%
Capital Bonds	\$0.00	\$12,213,000.00	#DIV/0!
Water Fund	\$4,239,148.00	\$4,462,250.00	5.26%
Wastewater Fund	\$3,788,663.00	\$3,348,560.00	-11.62%
Cable Revolving Fund	\$719,856.00	\$641,627.00	-10.87%
TIF Districts	\$1,943,294.00	\$2,214,149.00	13.94%
Revenues	\$31,963,788.00	\$48,693,679.00	52.34%
Tax Rate	\$5.94	\$6.09	2.53%
Impact on \$300K home			\$45.00

Expenditures – It is recommended that the Town Council adopt an FY25 Budget in the amount of **\$77,221,370**, which appropriates funds for all general operations, water, wastewater, cable and capital needs. The percentage changes are significant for some expense categories within the budget groups, primarily attributed to the following:

<i>General Fund Budget Variations - FY25</i>			
Commodity	FY24	FY25	Delta
Total Wages	\$ 20,961,300.00	\$ 22,054,224.00	\$ 1,092,924.00
Gasoline and Diesel	\$ 376,277.00	\$ 342,375.00	\$ (33,902.00)
Workers' Compensation	\$ 584,228.00	\$ 686,528.00	\$ 102,300.00
EE Insurances	\$ 4,290,129.00	\$ 4,521,098.00	\$ 230,969.00
Solid Waste Disposal	\$ 2,080,869.00	\$ 2,225,952.00	\$ 145,083.00
NHRS	\$ 4,703,165.00	\$ 4,961,258.00	\$ 258,093.00
Electricity	\$ 378,368.00	\$ 325,227.00	\$ (53,141.00)
Vehicle Maintenance	\$ 355,640.00	\$ 434,549.00	\$ 78,909.00
Debt Service	\$ 2,383,251.00	\$ 2,251,183.00	\$ (132,068.00)

Items of significance of which the Council should be aware:

- The budget funds all contractual provisions for the Town's seven collective bargaining units with no reduction in positions, including the two Agreements approved by the Council to become effective in FY25.
- Two part-time custodial positions are planned to be merged into one f-t position to enhance efficiencies and increase marketability of the position.
- The Fire Department is scheduled to elevate a p-t administrative support position to full-time to support all divisions within the Department.
- It is proposed to add a second canine unit effective January 1, 2025 which will enhance the Department's patrol and response capabilities and flexibilities.
- For only the second time in several years, employee insurance costs have risen appreciably, led by the 12% increase in health insurance costs. The average increase for municipalities in our risk pool is about 15%; Derry has experienced both significant claims and shares in the return of post-Pandemic surge in elective surgeries.
- The Town has relied very heavily upon the availability of Unallocated Fund Balance to fund most of its capital needs; this mechanism results in unpredictability as year-end UFB will vary significantly from year to year. This budget maintains the contribution from the budget to Capital Reserve Funds at \$675,000 and recommends allocating an additional \$75,000 from UFB to increase the program's funding target to \$1,575,000.
- Continuation of the Derry Commerce Corridor TIF District Improvement Program. The program is positioned to support infrastructure and private investments in the Downtown area to help relieve the housing crisis and stimulate additional business activity with the Corridor.
- With the impending construction of Contract B of the Exit 4A Corridor project, several goals in the Gateway TIF District Development Plan are scheduled for implementation in FY25. The budget includes a DPW position and truck. Also, NHDOT has notified the Town that it is ready to proceed with designing the rail trail north of the corridor to the Londonderry town line. This \$200,000 contract will be funded with State Transportation Alternative Funds (\$160,000) and Gateway TIF funds (\$40,000).
- The proposed Capital Improvements Program is located near the end of the FY25 Budget document. Most major capital projects will continue to be funded through lease

arrangements, which are then repaid from the various Capital Reserve Funds. Major projects include:

Police Department

Ongoing lease payments on vehicles and equipment

Fire Department

Battery Powered Rescue Tools - \$200,000	Funded through AFG
Medic Replacement - \$397,000	Replace 2009 unit.
Cardiac Monitor - \$50,000	Systematic replacement of outdated monitors.
Respiratory Ventilators - \$93,000	Replace outdated ventilators.
Off-Road Gator - \$45,000	Available to all departments for off-road emergency.
Mobile Command Upgrades - \$36,200	Communications and video link upgrades to mobile command truck.

Department of Public Works

Pavement Management - \$1,600,000	Annual appropriation for road repair and reconstruction throughout the community.
Sidewalk Upgrades - \$200,000	First year of four-year program at \$50,000/yr. to upgrade sidewalks throughout the community.
Highway Vehicles - \$650,000	Replacement of the following vehicles: 5500 Truck w/snow removal- \$150,000 Roadside Mower - \$200,000 6 Wheel Dump Truck - \$200,000 Sidewalk Machine – \$100,000
Truck Tractor - \$175,000	Replace truck tractor #579T
Trailer Storage Area - \$150,000	Replace damaged trailer storage structure.
Ride on Leaf Blower - \$11,500	For Parks maintenance

Information Technology

No new capital projects planned for FY25.

Expendable Maintenance Trust

Fire Facilities - \$110,000	Station 2 Turnaround - \$20,000. Station 2 HVAC - \$25,000 Multiple misc. repairs throughout - \$20,000 Comprehensive Facility Study - \$50,000
Buildings and Grounds - \$45,000	Boiler Replacement at Gallien's Beach - \$15,000. Sprinkler System Upgrades - \$30,000.
Cemeteries - \$25,000	Road rehabilitation

Derry Public Library - \$150,000
Taylor Library - \$8,000
Transfer Station - \$80,000

Site work renovations
Chimney repair and facility assessment.
Security Improvements at Transfer Lane - \$40,000.
Fire Protection Pipe Replacement - \$40,000.

DPW – Water Division (User Fees)

Water Main Upgrade - \$600,000

Annual replacement and upgrade, older AC mains are replaced with newer ductile iron mains. These improvements increase the flow capacity of main lines, improve the structural strength of the mains, and reduce leak potential and lost water costs.

SNHRWP – Phase II - \$33M

Phase II upgrades to increase water wheeled through Derry to communities south; Although improvements will be required in Derry, costs will be absorbed by the State and participating communities, and not assumed by Derry or its ratepayers.

Vehicle Replacement - \$200,000

#631 – Replace '14 Mini-Excavator - \$150,000

#633 – Replace '15 Pick-up - \$50,000.

DPW – Wastewater Division (User Fees)

Vehicle Replacement - \$120,000

#629 – Replace '14 Pickup Truck - \$60,000

#622 – Replace '13 Pick-up Truck - \$60,000

Effluent Sewer Force Main - \$650,000

Replace 1,500 ft. of cross-country line – SRLF-Wastewater Fees.

Lagoon System - \$14M

Reline lagoons 1&2 with aerators; restore lagoon #3 to service.

Cable Division (Franchise Fees)

Master Control Ops - \$40,000

Emerging Media Lab - \$30,000

Battery Back-up - \$5,000

Talk Back Comm System - \$5,000

Misc. Equipment - \$30,000

Production Equipment - \$10,000

Signal Transport - \$10,000

LPFM Radio Equipment - \$5,000

Edit Suite Computer Syst. - \$10,000

Meeting Rm Equipment - \$10,000

Radio Equipment/Required OPS

Main Studio Conversion to Network

Audio/Tie In.

Mobile Production - \$15,000

Misc. Equipment - \$10,000

Set Design - \$5,000

Revenues – In order to understand the impact upon the budget, revenues are generally categorized as either sustainable or situational.

Sustainable revenues – These revenues are from sources which are not tied to a particular project and are generally resistant to significant variations, although there will be some fluctuations due to economic conditions, state fiscal policies, local budget decisions, etc. This group of revenues includes property taxes, motor vehicle registration fees, state aid, local permits and fees, water and wastewater revenues and investment income.

Customarily, these revenues are used to fund operating costs.

Situational revenues – These revenues are generally project dependent and may include proceeds from long term bonds or lease revenues, capital reserve funds, and state and federal grants. These revenues fluctuate more significantly than sustainable revenues as gross capital investments do vary from year to year and can be somewhat misleading when policymakers review estimated revenues for stability across budget years. Also included in this group are funds from the COVID-19 Expendable Trust, Expendable Trust for the Derry Recovery Plan (ARPA) and CBA Implementation Trust. Although classified as situational funds, they can be used to supplement revenues on a graduated basis until such time as sustainable revenues grow to an anticipated level.

ESTIMATED REVENUES			
SUSTAINABLE REVENUES	FY24 BUDGET	FY25 ESTIMATED	CHANGE
TIF District Revenues	\$ 1,943,294.00	\$ 2,054,149.00	5.70%
Non-Property Tax Revenues	\$ 102,000.00	\$ 116,500.00	14.22%
Interest & Penalties	\$ 225,000.00	\$ 225,000.00	0.00%
Motor Vehicle Fees	\$ 6,680,700.00	\$ 6,732,700.00	0.78%
Permits and Fees	\$ 514,728.00	\$ 566,311.00	10.02%
State Revenues	\$ 4,038,769.00	\$ 3,946,282.00	-2.29%
Reimbursables/Contracts(Dispatch Ctr)	\$ 541,248.00	\$ 538,870.00	-0.44%
Charges for Services(Ambulance Fees)	\$ 1,425,000.00	\$ 1,465,000.00	2.81%
Transfer Station	\$ 853,540.00	\$ 901,040.00	5.57%
Income from Recreation	\$ 96,900.00	\$ 95,300.00	-1.65%
Interest Revenue	\$ 500,000.00	\$ 900,000.00	80.00%
Rent of Town Property	\$ 153,957.00	\$ 155,962.00	1.30%
Fines and Forfeitures	\$ 37,710.00	\$ 35,910.00	-4.77%
Personnel Reimbursements	\$ 378,130.00	\$ 438,500.00	15.97%
Miscellaneous	\$ 17,400.00	\$ 77,185.00	343.59%
Trust Income	\$ 460,334.00	\$ 435,260.00	-5.45%
	\$ 17,968,710.00	\$ 18,683,969.00	3.98%
SITUATIONAL REVENUES			
State Grant Awards	\$ 17,215.00	\$ 18,816.00	9.30%
Federal Grants	\$ 10,628.00	\$ 194,134.00	1726.63%
Sale of Town Property	\$ 107,810.00	\$ 142,810.00	32.46%
Transfers from Capital Reserves	\$ 188,674.00	\$ 175,500.00	-6.98%
Total Federal	\$ 500.00	\$ 160,500.00	32000.00%
CBA Implementation Trust	\$ 75,000.00	\$ 75,000.00	0.00%
Derry Recovery Expendable Trust	\$ 492,357.00	\$ 667,770.00	35.63%
Capital Lease Revenues	\$ 891,337.00	\$ 1,172,000.00	31.49%
Use of Fund Balance-ALL FUNDS	\$ 3,540,045.00	\$ 6,737,743.00	90.33%
	\$ 5,323,566.00	\$ 9,344,273.00	75.53%
TOTAL REVENUES	\$ 23,292,276.00	\$ 28,028,242.00	20.33%

Revenue impacts and trends include:

- The Town anticipates collecting a slightly higher amount of motor vehicle registration fee revenue for FY25.
- Interest earnings on investment have performed very well and are budgeted at \$900,000. The Town's weighted investment rate for FY24 is 3.95% and at the current cash flow level, the Town would need to earn a minimum investment rate of 2% to achieve this revenue level.
- Additional waste tire revenues will be used to supplant tax dollars in FY25 for reclamation related activities; the supplanted tax dollars will be used to replace the trailer storage structure.

- This budget anticipates applying \$633,000 from the Derry Recovery Trust in FY25 to assist with the cost of collective bargaining agreements. It is anticipated that this infusion will be reduced to \$531,000 in FY26, declining each year thereafter until FY29 (\$103,000).

Tax Rate Calculation – Derry operates under a tax cap with authority to:

- 1) raise funds outside the cap for programs and accounts mandated to be paid from municipal funds by state or federal law (Charter, 9.4(A)), and,
- 2) Town Council can exempt debt service payments incurred for any municipal bond (Charter, 9.4(B)); and
- 3) Town Council may enact a general override by a two-thirds vote of the entire Town Council (Charter, 9.4(C)).

This budget requests no exemptions or overrides and fully complies with the Town Charter.

Section 9.4 (A) of the Town Charter further specifies the method by which the tax rate may be adjusted. Listed below is information establishing the parameters of the Council's property tax assessment authority under the tax cap:

Implementation of Town Charter Section 9.4 (A)		
Prior Year Tax Rate (FY 24 - 2023 Tax Bill)		\$5.94
CPI Adjustment per Section 9.4 (A)	2.6%	\$0.15
Northeast Region CPI-U for CY2023		
Authorized Tax Rate for FY25 - 2024 Tax Bill		\$6.09
Projected 2024 Town Tax Rate		\$6.09
Projected Tax Rate Adjustment	2.6%	\$0.15

The following calculation projects the Town's Tax Rate in 2023, based upon the Town Administrator's proposed FY 25 Budget:

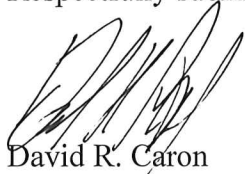
<i>Projected Town Tax Rate</i>	
Gross Appropriations:	\$ 77,221,370.00
Less Estimated Revenues:	\$ (48,693,679.00)
ADD Veterans' Credits:	\$ 543,683.00
ADD Overlay:	\$ 300,000.00
To Be Raised:	\$ 29,371,374.00
Estimated Valuation:	\$ 4,822,544,515.00
Projected Town Tax Rate:	\$ 6.09

Schedule – In order to meet the budget submission and adoption requirements within the Charter, the following schedule is offered:

April 2	Regular TC Meeting; Budget Overview
April 4	Budget Review Workshop – Finance & Administration
April 6	Public Safety, Department of Public Works
April 16	Regular TC Meeting; Capital Improvements Program, Capital Projects
April 23	Public Hearings on Budget and Capital Improvements Program ; final budget review workshop (if needed)
May 7	Adoption of FY 25 Budget and CIP by Town Council.

We look forward to working with the Town Council and the public during this process.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'D. Caron', written over the printed name.

David R. Caron

Town Administrator