



DATE: May 2, 2016<sup>1</sup> and **Updated June 12, 2016**  
TO: Town Council  
FROM: Angus Jennings, Town Manager  
RE: Proposed FY17 Budgets: General Fund, Sewer Fund, Capital Program

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## **Proposed FY17 Budget Message<sup>2</sup>**

The contents of this proposed FY17 Budget are intended to be responsive to requirements of the Town Charter.

The following sections discuss specific policy objectives of the budget and notable items regarding the proposed budget.

### **Internalize recurring expenses formerly paid from Host Community Benefit Account**

The current balance of the Host Community Benefit (HCB) Account is \$236,586. However, while this amount appears in our Trio accounting software, there is not in fact this much cash on hand due to interfund transfers that have depleted the General Fund's cash reserves. As amounts due from the Sewer Fund are paid back over time, this account can again serve as a resource to either offset property taxes, or fund services or infrastructure that would not otherwise be funded.

At the February Goal Setting workshops, I established a goal for FY17 to budget for all items that have been paid from the HCB that remain policy priorities (or requirements). The following are the primary items which have been funded from the HCB in recent years are included in the proposed FY17 expense budget:

- Debt service: \$108,097 (offset by \$95,569 debt service budgeted and paid off in FY16)
- Engineering costs and local match of construction costs, Western Avenue sidewalk
- Stormwater management (consulting proposal received and pending in amount of approximately \$30,000; actual proposed budget subject to continuing negotiations as well as opportunity to bring more contracted work in-house).
- Decorations: Veterans Day, Christmas Lights

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<sup>1</sup> Town Charter Sec. 702.

<sup>2</sup> Town Charter Sec. 703.

## Town Manager FY17 Budget Message, June 12, 2016

Additional expenses paid out of the HCB in FY16, but which are not recurring costs, include the A/V improvements to the Council Chambers, the setting of survey pins to close out the Marina project, payment of the Town Manager's moving expenses as provided for in the approved employment contract, and the Natural Gas Feasibility Study (intended to be funded by TIF but funded through HCB due to 2014 TIF funding error).

### Prevent Sewer Fund from being further drain on General Fund

As a result of changes to sewer rates adopted in February, it is projected that FY17 will be the first year in at least a decade that the Sewer Fund will not require interfund transfers in order to meet its current operating and capital costs. However, as noted in the proposed FY17 Sewer Budget, rates will be evaluated and will need to be further increased in order to both get current with past due amounts and to accelerate the multi-year payback to the General Fund.

### TIF revenues can offset costs otherwise internal to taxpayer-funded budget

The terms of existing TIF agreements will result in roughly ½ of the proposed TIF budget being returned to the companies through Credit Enhancement Agreements with the balance of TIF funds – approximately \$93,000 – available to support economic development and/or infrastructure activities defined as eligible within the specific TIF agreements. This will be discussed further within the budget meetings, and may allow for some expenses included in the proposed Budget, or others, to be funded through TIF.

### Environmental Trust is resource for eligible expenses

Work is underway toward re-activating the Environmental Trust. It is hoped that some expenses included in the proposed Budget may be able to be funded through the Trust, such as related to stormwater management.

### Capital Program

To my knowledge, the last time that a formal capital program was brought forward for Town Council review within the Budget process was 2008. It is clear that a great deal of effort was put toward this work at the time. However, the capital program was not implemented nor kept current over the years, presumably largely if not entirely as a result of the global economic recession beginning in late 2008 and the effect it had on Hampden and the overall economy.

This proposed budget includes a Capital Program which, while missing some details, is intended to provide a strong basis for the Town to finalize a capital plan. While a complete 5 or more year plan will not be achievable before the end of FY16, it is hoped that the Town Council will arrive at capital priorities to inform reserve funding to be included in the FY17 Budget.

Limit Interfund Transfers except to resolve short-term cash flow challenges

The Sewer Fund has been relying on regular interfund transfers from the General Fund for many years. (Excerpts of FY06-FY15 Audits included as an attachment to this Budget).

While further interfund transfers may be needed in the coming months, including in FY17, in order to maintain financial obligations, these have already created tremendous strain on the Town's cash flow, and have contributed to the need for borrowing through the TAN.

One of my goals with the FY17 Budget is to limit interfund transfers to situations where they are needed to resolve short-term cash flow challenges, but where the receiving fund can rely on future revenues to reimburse any future transfers in a reasonable amount of time.

Evaluate FY17 Budget and Operational Effects of Skehan Center on Recreation Department

The Town Council's Services Committee has directed me and the Recreation Director to prepare two alternate FY17 Budgets for the Recreation Department: one based on continuing the Town's lease of the Skehan Center; and the other based on terminating the lease.

In recent months, as a result of correspondence to the property owner at the direction of the Council, changes have been made to the building's parking, electrical and heating systems in an effort to bring the facility into compliance with the terms of the lease. Although these changes have not been in effect long enough – nor during the most expensive months for utilities costs – to provide updated information regarding facility operating costs, it is expected that these changes would result in reduced operating costs if we continue with the lease through FY17.

This proposed Budget includes both alternative scenarios, and these will be considered in detail within the Town Council's budget workshops and hearings. It is understood that, if changes are made, these would not likely take effect until midway through FY17 due to lead time associated with Recreation programming, marketing and registrations.

Budget for Maintenance of Public Parks and Recreational Facilities

The maintenance of public parks and recreational facilities generates personnel and cost impacts to the DPW that have not historically been budgeted. The proposed FY17 Budget includes a modest amount of funding to support direct expenses resulting from these services without compromising DPW's other responsibilities.

Pursue Community Consensus in FY17 regarding potential Community Center

Following on many discussions among the Council and its Committees, Town personnel, other Town Committees, and the public, I recommend that, during FY17, we work to establish a clear policy and financing strategy (if applicable) to implement consensus (or majority) policy objectives relative to the long-term facilities needs for Recreation, Pool, and the Library. It is not proposed that any funds be committed toward any potential project during FY17, other than potential soft costs (i.e. survey, site analysis). However, given the importance of these issues to

## Town Manager FY17 Budget Message, June 12, 2016

much of the community, I recommend that, beginning in Fall 2016, the Town Council lead a participatory public process to set out both challenges and opportunities associated with long-term facility needs.

### Mil Rate

It is important to note that the budget hearing and adoption does not set the mil rate for the community. That is done in August after all the real estate, personal property, and exempt valuations are compiled by the Assessor. However, the Assessor will be involved with the budget process to provide the best estimates available regarding how the budget as approved by the Council will affect the mil rate.

**Estimate Income**<sup>3</sup> (with comparative figures: FY15, FY16 YTD)

Projections of revenues other than from property taxes are included in the attached table entitled "Revenue Accounts, Proposed FY17 and Budgeted / Actual FY15 and FY16 YTD." The following discussion relates to that table.

**Property Tax Applicable to Increased Valuations**

While the Assessor will not certify Assessed Values town-wide for some time, we have been working together closely to prepare estimates of new growth that will be subject to property and personal property taxation in FY17 and beyond. These estimates are based on close tracking of construction and permitting activity.

New Valuation Increases at the present time are estimated at \$5,152,000 (not including TIF property valuation), which at the present mil rate of \$17.50 per thousand would generate an additional \$90,160. Up to \$7,000,000 of personal property may become taxable at Emera, and is not subject to TIF. If so, at the present mil rate this would generate an additional \$122,500.

I will work with the Assessor to continue to refine projected values and associated revenues during the FY17 budget process.

**Excise Tax**

Excise tax collections continue to increase and, year to date, we have collected 95% of the \$1.6M included in the FY16 budget revenue projections. Excise tax receipts for FY17 are projected at \$1,775,000. Actual collections in FY14 slightly exceeded this amount.

**Changes to Homestead Act**

Changes to the Homestead Act legislation increase the amount of value that is exempted from local taxation for participating properties. On 3/24/16 the Assessor estimated that these statutory changes can be expected to cost Hampden \$69,562.50 above FY16 levels.

**Municipal Revenue Sharing**

Municipal Revenue Sharing, which had long been fully funded per Statute, has increasingly been "raided" by the State Legislature (source: Maine Municipal Association). In Hampden, Municipal Revenue Sharing fell from \$800,000 (FY10) to \$600,000 (FY13) to \$348,000 (FY16).

Fortunately, for the first time in years, the State Treasurer reported in a letter dated 2/29/16 that Hampden would receive an increased amount of Municipal Revenue Sharing. FY17 Municipal Revenue Sharing is budgeted at \$377,135.18.

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<sup>3</sup> Town Charter Sec. 704.

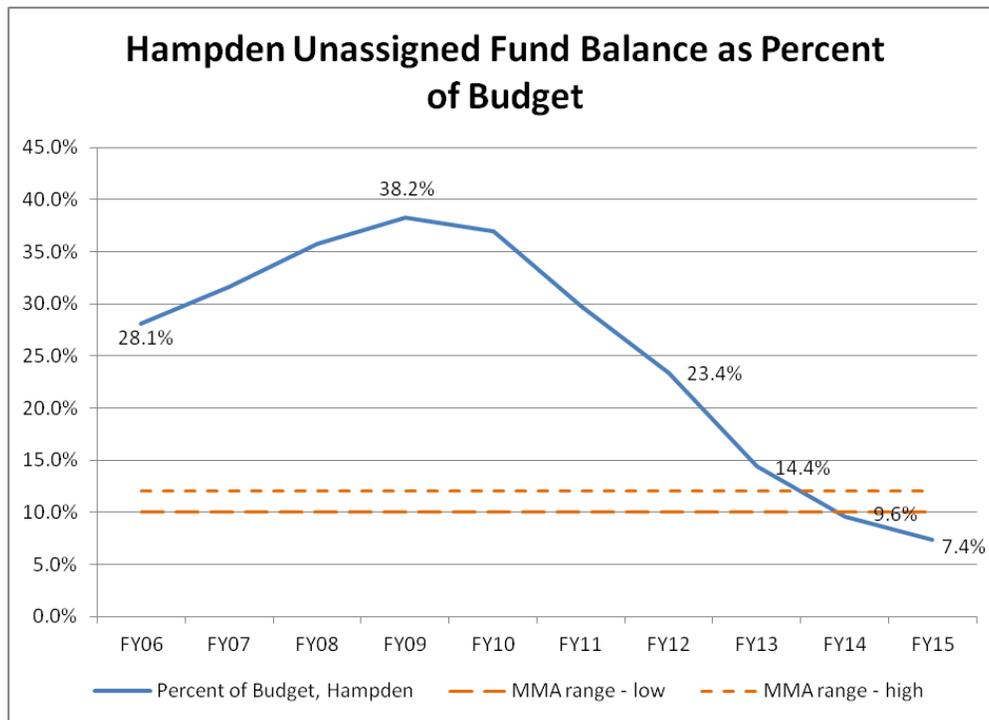
## Town Manager FY17 Budget Message, June 12, 2016

### Year-End Fund Balances have fallen steadily in recent years

The Town's year-end Undesignated Fund Balance has fallen steadily in recent years. Audits from recent years show the following year-end fund balance:

Year-End Unassigned Fund Balance, Hampden General Fund					
FY	Amount	Annual Budget	Percent of Budget, Hampden	MMA range - low	MMA range - high
FY06	\$ 2,925,911	\$ 10,402,696	28.1%	10%	12%
FY07	\$ 3,616,647	\$ 11,429,957	31.6%	10%	12%
FY08	\$ 4,202,573	\$ 11,745,724	35.8%	10%	12%
FY09	\$ 4,648,425	\$ 12,157,302	38.2%	10%	12%
FY10	\$ 4,522,569	\$ 12,218,364	37.0%	10%	12%
FY11	\$ 3,846,928	\$ 12,890,999	29.8%	10%	12%
FY12	\$ 3,111,351	\$ 13,306,780	23.4%	10%	12%
FY13	\$ 1,960,033	\$ 13,634,978	14.4%	10%	12%
FY14	\$ 1,329,466	\$ 13,915,548	9.6%	10%	12%
FY15	\$ 1,051,925	\$ 14,197,568	7.4%	10%	12%

After enjoying an Unassigned Fund Balance above recommended levels for many years, Hampden first fell below MMA's recommended 10-12% range at year-end FY14 and fell further to 7.4% by year-end FY15. Because the approved FY16 budget included transfer of \$200,000 from Fund Balance as part of its projections of non-tax revenues, the Unassigned Fund Balance will definitely fall below this level by year-end FY16.

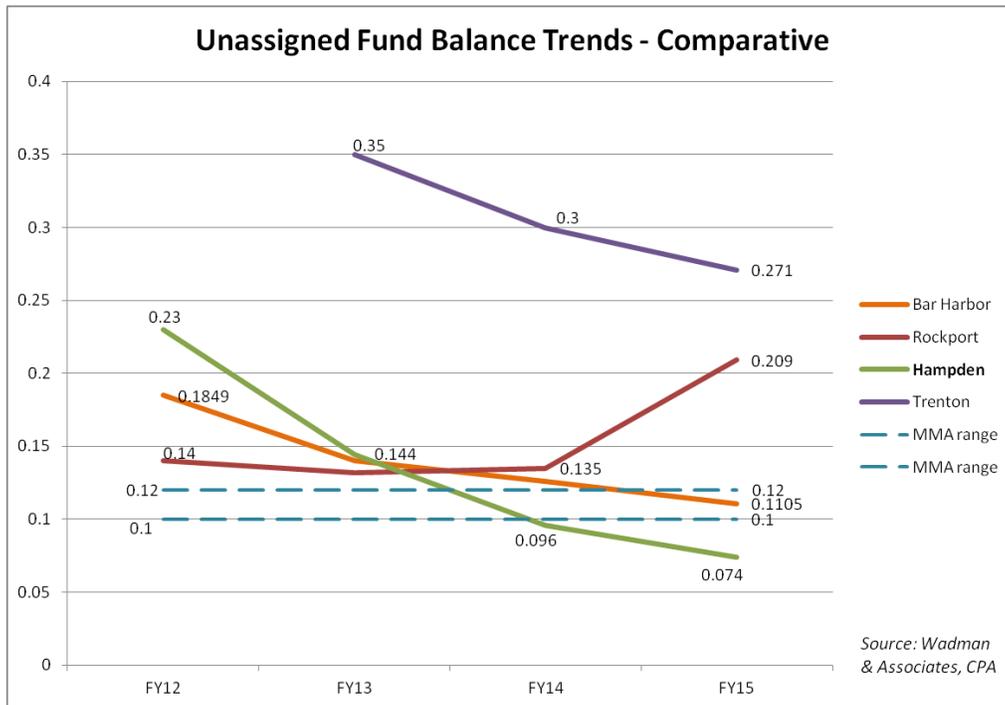


Routine draw-downs of Fund Balances have directly reduced Property Tax Commitment

During this period of time, a significant contributing factor to the declining overall fund balances has been the Council’s annual draw from the fund balance, within the budgeting process, in order to reduce the amount of the property tax commitment. Audits from recent years show the following “Beginning Fund Balance Used to Reduce Tax Commitment:”

- FY11 \$332,500
- FY12 \$455,000
- FY13 \$661,350
- FY14 \$550,000
- FY15 \$500,000
- FY16 \$200,000 (not in Audit – fiscal year still underway – but included in FY16 Budget)

Hampden’s FY15 Unassigned Fund Balance does not compare favorably to other communities included in an analysis prepared by our independent Auditor Wadman & Associates, CPA:



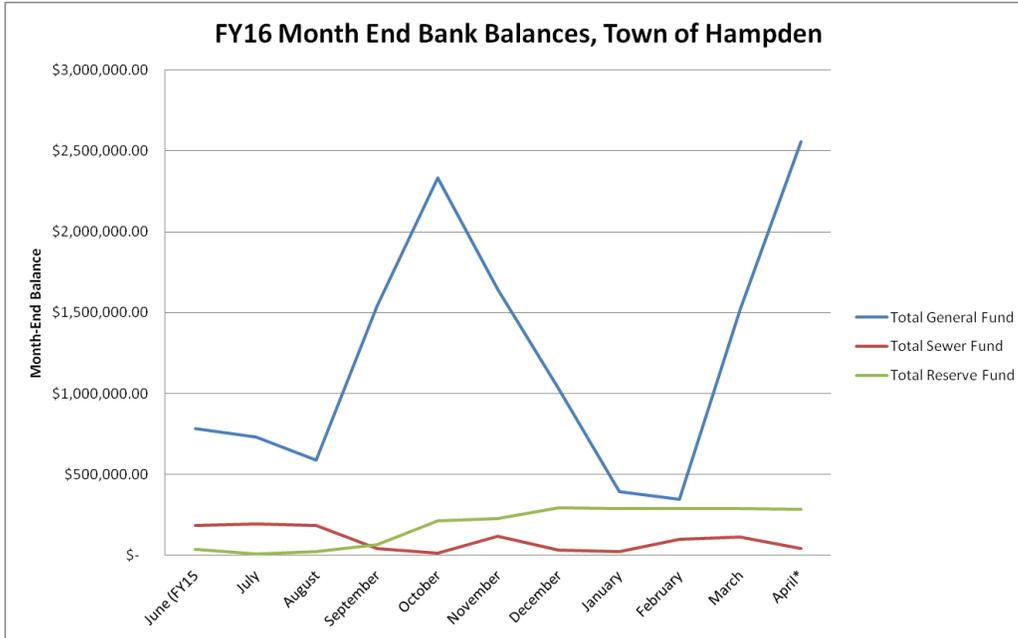
Further, it is important to note that amounts “owed” to the General Fund as a result of interfund transfers are included as General Fund assets in the Audit, and are therefore included in what’s shown as the Unassigned Fund Balance. At year-end FY15, the General Fund showed Interfund Receivables of \$656,545. Because these amounts due not represent actual cash on hand, the actual Unassigned Fund Balance – until interfund transfers are fully paid back – is significantly less than what is shown.

A long-time Town Manager colleague has advised me that, while the appropriate level of Unassigned Fund Balance recommended by MMA is sound, each community needs to determine for themselves what level is appropriate. His advice was that the Unassigned Fund

## Town Manager FY17 Budget Message, June 12, 2016

Balance should allow the municipality to pay its bills throughout the year, taking into account cash flow variations (since our primary revenue source – property tax – is received twice a year), without resort to borrowing.

In FY16, the Town of Hampden issued a Tax Anticipation Note (TAN) for the first time (to my knowledge) in its history. The Town had to borrow in order to stay current on its obligations – not because of one or more major unforeseeable expenses, but because the Unassigned Fund Balance has fallen to a point where cash flow has become a real challenge. The following table and corresponding chart illustrate this point:



Month-End Bank Balances, Town of Hampden				
FY16	Total General Fund	Total Sewer Fund	Total Reserve Fund	Notes
June (FY15)	\$ 782,259.48	\$ 186,258.92	\$ 36,685.17	
July	\$ 732,939.67	\$ 193,947.38	\$ 7,273.41	
August	\$ 589,954.09	\$ 183,860.06	\$ 21,533.77	
September	\$ 1,541,316.84	\$ 42,322.91	\$ 64,617.20	
October	\$ 2,331,337.34	\$ 12,890.95	\$ 211,300.08	Sewer Fund: Reflects transfer of \$55,000, GF to SF, 10/14/15.
November	\$ 1,642,729.60	\$ 119,970.57	\$ 228,649.84	
December	\$ 1,033,028.98	\$ 30,788.41	\$ 293,487.45	Sewer Fund: Reflects transfer of \$50,000, GF to SF, 12/14/15.
January	\$ 393,928.02	\$ 25,077.73	\$ 290,863.83	Sewer Fund: Reflects transfer of \$5,000, GF to SF, 1/14/16.
February	\$ 345,610.55	\$ 100,844.99	\$ 289,883.27	General Fund: Reflects draw from TAN, \$500,000 on 2/3/16 and \$150,000 on 2/22/16.
March	\$ 1,520,801.40	\$ 114,326.65	\$ 289,985.12	
April*	\$ 2,554,771.98	\$ 41,167.64	\$ 283,762.00	General Fund: Reflects repayment of TAN, \$650,882.63, on 4/7/16.
May	\$ -	\$ -	\$ -	
June	\$ -	\$ -	\$ -	

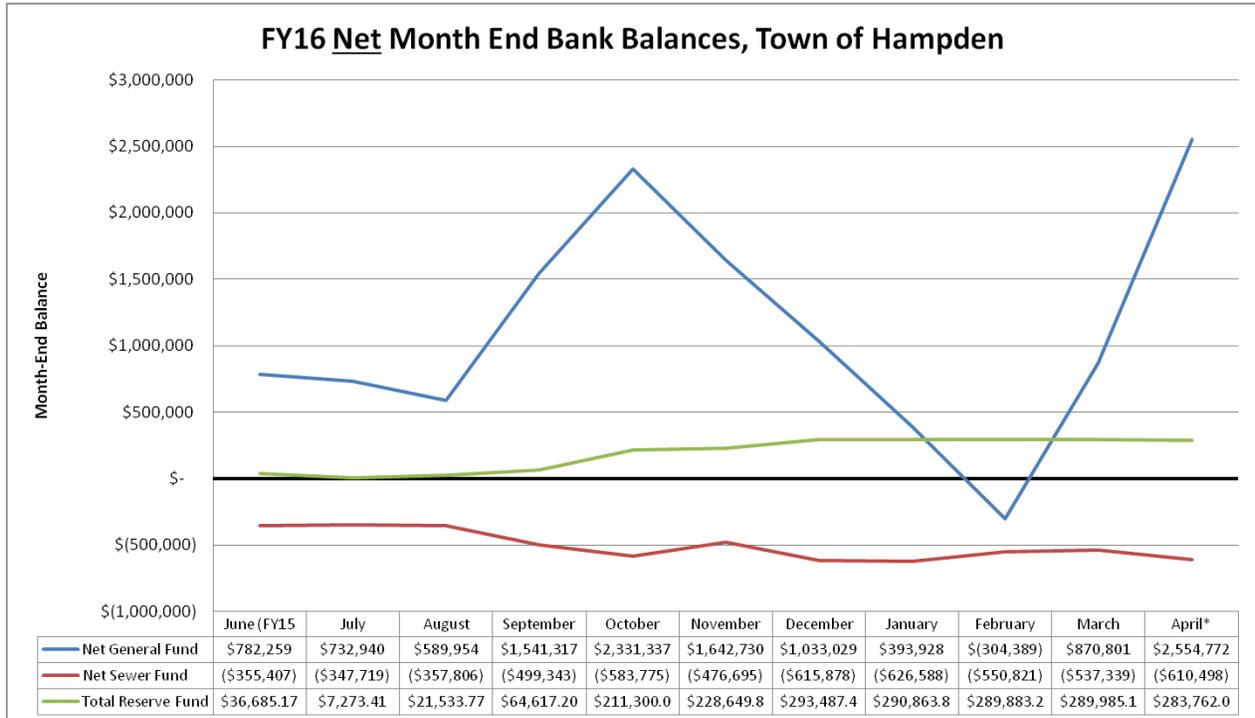
\* April balance as of 4/30/16 (online balances, not bank statement).

Source: Bank Statements, Maine Savings FCU.

## Town Manager FY17 Budget Message, June 12, 2016

As noted in the table on the preceding page, the General Fund account balances shown reflect two draws on the TAN in February 2016 totaling \$650,000. (This amount was paid back in full, with accrued interest, in April). The Sewer Fund account balances shown reflect three interfund transfers from the General Fund in October, December and January totaling \$110,000.

The following chart illustrates that, if not for the TAN, the month-end General Fund balance would have fallen into negative numbers in February; and that the Sewer Fund would have had a negative balance throughout the year but for the \$541,666 in interfund payables at year-end FY15 in addition to the interfund transfers completed in FY16 year-to-date:



Although I will continue to make efforts to avoid further General Fund to Sewer Fund interfund transfers until the sewer revenues increase to better cover operating and capital costs, it is necessary to preserve this option to avoid a scenario where the Sewer Fund simply could not pay its bills.

And, it is important to preserve an Unassigned Fund Balance in the event of future unforeseen costs that may arise.

For these reasons, I have not proposed transfer of funds from the Undesignated Fund Balance within the revenue projections in the FY17 budget. I do not recommend further draw-downs at this time. However, even without these revenues, the estimated non-property tax revenues are within \$100,000 of what was included in the current FY16 budget.

**Proposed Expenditures detailed by offices, departments & agencies**<sup>4</sup> (with comparative figures: FY15, FY16 YTD)

Personnel Narrative

As part of my proposed FY17 Town Budget, I have proposed a couple of changes to the Town organizational chart that I believe would improve our service to the community. The proposed changes were discussed by the Council at budget working meeting on May 23 and June 7.

The most significant change is my proposal to restore a full-time Town Planner position, and to eliminate the Community and Economic Development Director position.

As recently as 2015 the Town employed both a full-time Town Planner and a full-time Community and Economic Development Director. In January 2015 the former Town Planner was reduced to part-time hours, and in May 2015 he resigned his position. The then-Community and Economic Development Director was placed in charge of the Town Planner's responsibilities, and was given oversight of other positions in Assessing and GIS/IT. The former Town Manager outlined these changes in an April 2015 memo.

Since beginning my work in August 2015, I have been evaluating the function of the combined Planning/Economic Development/Assessing/GIS-IT/Code Enforcement departments, and I am recommending changes in order to improve function without adding to the operating budget.

My proposals related to personnel are summarized as follows:

- Eliminate Community and Economic Development Director position.
- Restore full-time Town Planner position.
- Transfer Administrative Assistant to new position providing approx. 30 hours a week of administrative support to DPW and approx. 10 hours a week of administrative support to Administration (specifically, handling weekly payroll). This position would continue to handle Ambulance billing collections.
- Replace Administrative Assistant either through internal hire or new hire. If replaced through internal hire, replace transferred employee with new hire.

I expect that the effect of these changes will improve department function and public service in the following areas:

- Provide greater staff time from the Town Planner toward zoning and ordinance amendments, stormwater management/environmental compliance, physical planning in coordination with infrastructure, and neighborhood/district-based participatory planning. A reconfiguration of seating arrangements, placing the Planner in an office with direct line of sight to the Administrative Assistant work station, will enhance customer service and provide direct backup to the Administrative Assistant if that person is out, on the phone or with a customer.
- Provide substantially more administrative support to DPW, including handling accounts payable, public bidding/procurement, contract financial management, environmental

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<sup>4</sup> Town Charter Sec. 704(1).

## Town Manager FY17 Budget Message, June 12, 2016

compliance reporting, and clerical support. This will free up significant time each week that the DPW Director can put toward other work.

- Provide approximately 10 hours a week of time from the current Accounting/Finance/HR Director, who is currently handling payroll, to take on more responsibilities as Finance Director. This will supplement the Town Manager's finance capacity, and takes into account the fact that the responsibilities of the Accounting/Finance/HR Director have expanded during my tenure based on a management style that is more collaborative. Many finance-related tasks that the former Town Manager retained exclusively have, during my tenure, involved regular collaboration with the Accounting/Finance/HR Director.
- Provide enhanced administrative support to the Planning/Economic Development/Assessing/GIS-IT/Code Enforcement functions, since the Administrative Assistant will no longer be also supporting DPW and Ambulance.

The organizational chart changes summarized above would be accompanied by a reconfiguration of employee seating arrangements in order to provide better customer service, especially for walk-in customers.

If the proposed organizational changes are approved within the FY17 Budget, it would have the effect of eliminating the Community and Economic Development Director position. As a manager, recommending the elimination of a position held by a current employee is one of the most difficult decisions I need to make. I have made this recommendation because I believe that the proposed organizational structure will better serve the Town of Hampden.

### Personnel Costs

Police and Fire personnel are entitled to a 1% COLA in FY17 resulting from approved union contracts. Town Manager proposed personnel costs applied the same 1% COLA to other personnel, without step increases except for position reclassifications and changes discussed above. By a 4-3 vote of the Town Council, FY17 compensation levels are adjusted by 1.5%.

### Health Insurance Cost Increases

Health insurance costs increased 9.85% mid-year, affecting costs from January 1 to June 30. Proposed health insurance costs for FY17 incorporate a 5% increase from FY16 budgeting.

### Workers Comp Cost Increases

Our Workers Comp insurance provider has advised budgeting a 1% increase for FY17 above FY16 budgeting.

**Town Manager FY17 Budget Message, June 12, 2016**

TIF Budgeting

The Assessor estimates that the value of the three properties subject to TIF agreements (Emera, HEC and University Club/Dennis Paper) will generate \$288,513 in FY17. Although some of these funds will be available for Town use for TIF eligible purposes, 100% of this amount shows up as an expense in the budget because all of the funds are transferred out of the General Fund into a special revenue account.

Of this amount, \$149,943 will be returned to the property owners through Credit Enhancement Agreements. The HEC funds not returned to the company, \$5,059, will go directly into the General Fund and are included in the Tax Commitment. The balance – \$138,570 – will be receipted to the General Fund then transferred into dedicated accounts – one for Emera (\$135,880) and one for Dennis Paper (\$2,689). At that point, those funds will be available for use for TIF-eligible purposes as set out in each of the TIF agreements.

Cost savings. Heating Oil and Diesel

In December 2015, we locked in reduced pricing for heating oil and diesel effective May 1, 2016 through April 2017. FY17 budgeting is based on the following pricing:

- \$1.659/gallon for heating oil (down from \$2.188)
- \$1.939/gallon for Diesel (down from \$3.357)

Based on prior average usage, this is expected to generate the following savings:

Estimated FY17 savings, heating oil and diesel					
Facility	Gallons	Type	FY16 cost (est)	FY17 cost (est)	Est. savings
Library	1,776	heating	\$ 3,885.89	\$ 2,946.38	\$ 939.50
Town Bldg	9,909	heating	\$ 21,680.89	\$ 16,439.03	\$ 5,241.86
DPW	14,069	diesel	\$ 46,929.96	\$ 27,279.79	\$ 19,650.17
Pool	11,926	heating	\$ 26,094.09	\$ 19,785.23	\$ 6,308.85
Skehan	8,693	heating	\$ 19,020.28	\$ 14,421.69	\$ 4,598.60
	<b>46,373</b>		<b>\$ 117,611.12</b>	<b>\$ 80,872.13</b>	
		<b>Estimated savings:</b>	<b>\$ 36,738.99</b>		

Streets and Roads FY16 Reserve Budget was fully depleted before FY16 began

The Town Council approved \$100,000 in the FY16 budget for Streets and Roads. However, because of two invoices from Maine DOT received in the fourth quarter of FY15 (as the local match for Route 1A projects approved in FY12 and FY14) totaling approx. \$122,000, the FY15 year-end deficit in that line item exceeded the \$100,000 budgeted. I have therefore advised DPW Director Currier that no reserve funds will be available for Streets and Roads in the current fiscal year. Annual funding received from Maine DOT are allowing some work on streets and

## Town Manager FY17 Budget Message, June 12, 2016

roads to go forward, but the work program will be planned based on a budget that is lower than standards in recent years.

The DPW Equipment Reserve Account also began FY16 in deficit (-\$47,962).

### Outside Agency Requests

To date, my office has received requests for FY17 funding from the American Red Cross, Eastern Area Agency on Aging, Community Health and Counseling Services, Hammond Street Senior Center, The Lifelight Foundation, Spruce Run Womancare Alliance, and the Hampden Garden Club. Consistent with approved Budgets in recent years, the Town Manager proposed Budget has not included funding for these agencies. However, consistent with the Outside Agency Funding Request Policy adopted by the Council in 2012, “as part of the annual budget review process, the Hampden Town Council shall consider whether to include budget requests from non-profit Non-Municipal Organizations. This decision shall be made after the municipal budget, including school, and county costs, has been presented.”

**Town Manager FY17 Budget Message, June 12, 2016**

**Obligated Debt Service<sup>5</sup> (with comparative figures: FY15, FY16 YTD)**

The debt service payments included in the proposed expense budget (account group 50-10) are based on the following outstanding obligations from prior capital projects:

Town of Hampden Debt Service Analysis, 4-30-16				Future Debt Service Obligations				
General Fund	Bond Series	Maturity Date	Remaining Balance (Year-End FY15)	FY16 Debt Service Due	FY17	FY18	FY19	FY20
2000 Road Construction & Line Extensions (Business Park)	2000 D	11/1/2020	\$ 540,000	\$ 117,282	\$ 108,097	\$ 90,000	\$ 90,000	\$ 90,000
2002 Fire Station	2001 D	11/1/2021	\$ 590,100	\$ 111,970	\$ 107,653	\$ 103,343	\$ 99,039	\$ 94,734
2006 Gravel Roads	2006 B	11/1/2015	\$ 83,334	\$ 84,167	\$ -			
2011 Mayo Road Bond	2010 F	11/1/2030	\$ 1,460,000	\$ 123,822	\$ 124,236	\$ 121,056	\$ 119,380	\$ 117,581
			<u>\$ 2,673,434</u>	<u>\$ 437,241</u>	<u>\$ 339,986</u>	<u>\$ 314,398</u>	<u>\$ 308,419</u>	<u>\$ 302,314</u>
<b>Sources:</b>								
<i>Town of Hampden Financial Statements with Independent Auditor's Report, FY11, 13, 14 and 15.</i>								
<i>Amortization Schedules, Outstanding Sewer Fund Debt.</i>								
<i>Town of Hampden General Fund and Sewer Fund FY15 and FY16 budgets.</i>								
<i>Debt Payment Schedule for 2000 D revised to reflect reduced payments per 1/8/16 letter from Maine Municipal Bond Bank.</i>								
<i>Debt service for 2011 Mayo Road bond adjusted to reflect additional costs resulting from Federal Sequestration.</i>								

The proposed debt service payments take into account the following changes from FY16:

1. Debt service for the business park road and infrastructure (account 50-10-50-20), issued in 2000, is included in the proposed expense budget. These bond payments have been paid from the Host Community Benefit account since FY12.
2. The bond payment for the Mayo Road improvements will be \$1,678 higher than had been projected in FY17 due to Federal budget sequestration.
3. The bonds for the paving of gravel roads were paid off in FY16 and are not included in the FY17 expense budget.

To inform future capital planning, it is worth noting that the next two bonds to be completely paid off will be the 2000 D bonds, which will be paid off in FY21, and the 2001 D bonds, which will be paid off in FY22. The 2010 F series bonds will not be paid off until FY31.

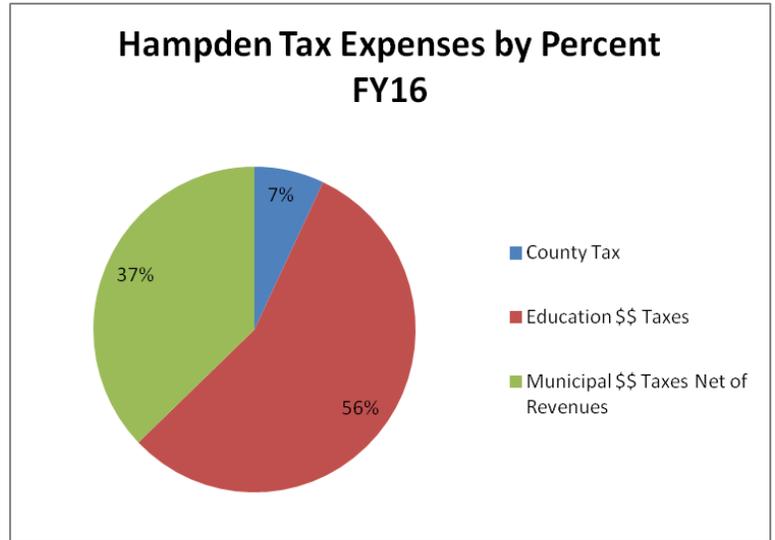
<sup>5</sup> Town Charter Sec. 704(2).

**Town Manager FY17 Budget Message, June 12, 2016**

Hampden Portion of RSU-22 Budget

The RSU-22 Budget Committee voted on April 26, 2016 to recommend a proposed FY17 Budget that would result in assessments to the Town of Hampden of \$6,308,862 (account 65-10-55-20). This is an increase of \$178,288 (3.49%) from FY16 school assessments.

The RSU-22 School Board is expected to consider the proposed FY17 Budget at their meeting on Wednesday, May 4. The RSU-22 Budget Validation Referendum will take place on June 14.

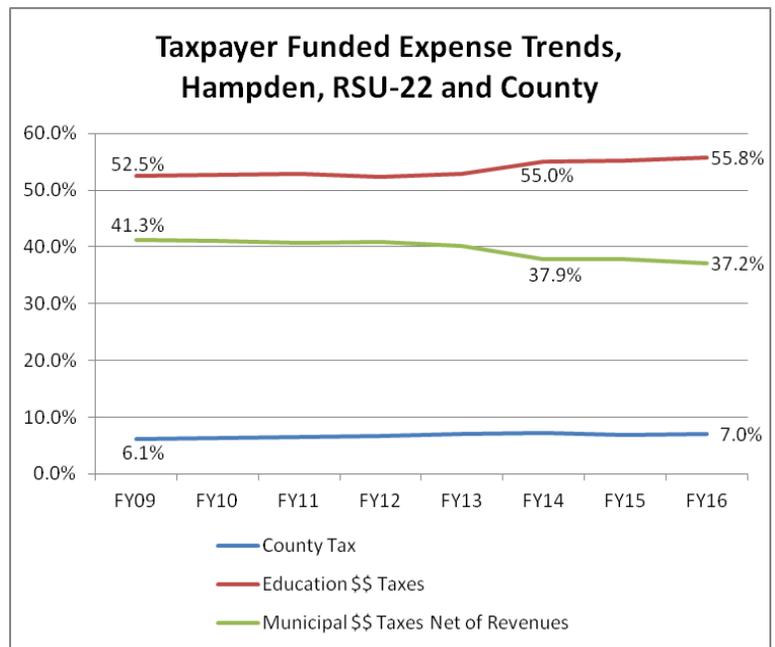


Penobscot County Taxes

County taxes in FY17 (account 45-10-55-10) will be \$792,557.54 based on a memo from Penobscot County on 2/2/16. This is an increase of \$24,002 (3.12%) from FY16 county taxes.

FY17 Share of Expenses

For the past seven fiscal years, the rates of budget increases at RSU-22 and Penobscot County have exceeded taxpayer-funded municipal budget increases. Over this seven-year period, the share of the Town budget supported by property tax revenues (as opposed to other revenues) has fallen by 2.2% while the RSU-22 budget has increased by 22% and the Penobscot County budget has increased by 31%.



As a result, a greater percentage of each property tax dollar is going to RSU-22 and County taxes than was the case in past years, while the municipal percentage of property tax revenue has steadily decreased. The Town Manager proposed FY17 Town budget would increase some municipal costs in order to maintain or enhance the level of service we can provide.

Following the June 14 referendum vote on the RSU-22 Budget and Town Council approval of an overall FY17 Budget, these trend lines will be updated to reflect approved FY17 funding levels.

**Proposed Budget: Hampden Sewer**

**Proposed Expenditures detailed by offices, departments & agencies<sup>6</sup>** (with comparative figures: FY15, FY16 YTD)

<b>Sewer Expense Budget</b>				
	<b>Expended</b>	<b>Expended</b>	<b>Budget</b>	<b>Budget Notes</b>
	2014/2015	2015/2016	2016/2017	FY17
		5/14/2016		
60 - SEWER				
10 - FUND 2				
01 - COMPENSATION				
05 - WAGES	\$60,000.00	\$0.00	\$60,000.00	Appropriation for contribution to public works/admin salary offset.
10 - SUPPLIES				
01 - SUPPLIES/OFFICE	\$5.00			
05 - POSTAGE/SHIPPING	\$6,388.95	\$7,370.41	\$6,000.00	Cost of sewer billing printing & postage 4 times per year.
20 - SUPPLIES/MATERIALS	\$6,752.22	\$4,234.12	\$10,000.00	Cost of quarterly water readings; pump station or line repair supplies.
99 - MISC.	\$0.00		\$2,400.00	
15 - UTILITIES				
05 - ELECTRICITY	\$33,811.47	\$33,212.31	\$36,000.00	Electric charges for pump stations.
10 - FUEL	\$7,602.19	\$6,078.82	\$7,000.00	Fuel costs for pump stations.
20 - MAINTENANCE/REPAIRS				
53 - Repair	\$0.00	\$21,629.00	\$52,000.00	Repair costs for pump stations and sewer lines.
30 - PROFESSIONAL SERVICES				
40 - LIENS/TRANSFERS	\$3,972.00	\$5,628.70	\$5,600.00	Cost of lien placement and discharge for sewer liens.
60 - SEWER EXPENSES				
02 - TREATMENT SERVICE CHARGE	\$318,745.73	\$83,092.45	\$262,494.00	Cost of projected FY17 sewer treatment by the City of Bangor. Prior years' spending includes overdue charges. Bangor Sewer anticipates 5% rate increase in FY17
04 - MAIN PUMP STATION CONTRACT	\$73,795.57	\$86,850.21	\$43,878.00	Cost of the contract with Bangor for pump station maintenance. Prior years' spending includes overdue charges.
10 - O&M CONTINGENCY		\$2,509.12		Debt service obligations for sewer lines/projects.
16 - PRINC/INT FMHA	\$91,701.56	\$387,091.78	\$ 381,465.35	Small projects that are above and beyond the routine repair costs.
22 - SPECIAL PROJ	\$0.00	\$13,636.69	\$15,500.00	Repairs to the flusher truck(\$10,500); GIS mapping for MS4 permit (\$5000).
24 - SEWER FLUSHER REPAIRS	\$0.00			
2-211-01 DUE TO GENERAL FUND			\$100,000.00	First year of multi-year payback.
2-220-00 CAPITAL COST RESERVE			\$5,000.00	Token amount toward capital reserve.
	\$602,774.69	\$651,333.61	\$987,337.35	

<sup>6</sup> Town Charter Sec. 704(1).

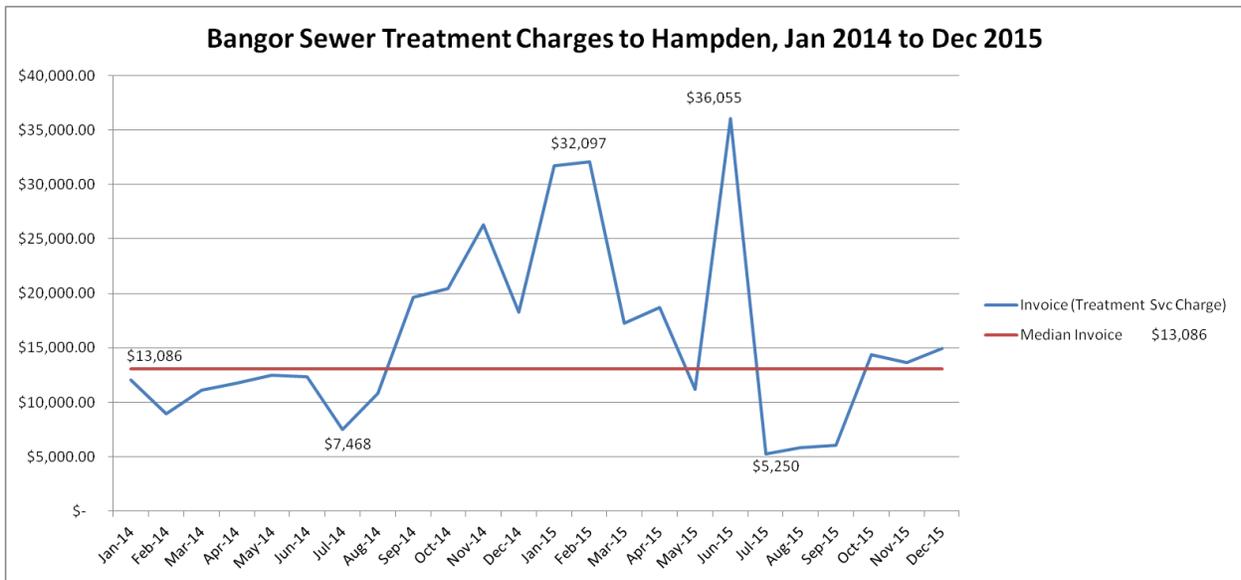
Notes regarding Sewer Expense Budget

With one exception, all expenses shown in the proposed FY17 Sewer Fund expense budget were presented at the Town Council’s February 16, 2016 public hearing regarding sewer rates, and were the basis of the adopted rate revisions.

The only proposed expense line item that differs from what was previously presented is for Treatment Charges (account 60-10-60-02). The proposed expense budget in February applied a 5% increase to incurred costs during calendar year 2015. (Bangor has advised that a 5% increase is expected).

To take into account the fact that charges have been trending higher, the proposed FY17 budget includes estimated treatment costs of \$262,494. This amount applies a 5% increase to the actual treatment charges during FY15.

Treatment charges have been a major variable in the Sewer Fund expense budget for the past few years. The following chart illustrates the major variability in per-month costs, and illustrates that the average monthly invoiced cost from January 2014 to December 2015 was \$13,068.



At monthly median treatment charge of \$13,086, annual costs would be estimated at \$157,032. Proposed FY17 budgeted costs for this line item exceed this amount by about \$100,000.

If actual FY17 costs are less than this proposed expense budget, this will leave additional revenues available to either a) pay overdue charges to Bangor (or financing of same); or b) pay pack interfund transfers to the General Fund.

**Town Manager FY17 Budget Message, June 12, 2016**

Sewer Fund, Obligated Debt Service<sup>7</sup> (with comparative figures: FY15, FY16 YTD)

The debt service payments included in the proposed expense budget (account 60-10-60-16) are based on the following outstanding obligations from prior capital projects:

Sewer Fund	Bond Series	Maturity Date	Remaining Balance (Year-End FY15)	FY16 Debt Service Due	FY17	FY18	FY19
1996 Sewer SRF	1997 A	10/1/2017	\$ 272,782	\$ 96,348	\$ 96,284	\$ 96,217	
2006 Sewer Construction Bond	2006 C	11/1/2026	\$ 868,424	\$ 103,990	\$ 107,675	\$ 103,669	\$ 99,495
2010 Route 1A Sewer Bond SRF	2009 FS	7/29/2029	\$ 1,425,717	\$ 108,537	\$ 108,533	\$ 108,526	\$ 108,520
2014 Sewer Project	2014 A	11/1/2034	\$ 902,050	\$ 69,217	\$ 68,973	\$ 68,594	\$ 68,066
			\$ 3,468,973	\$ 378,092	\$ 381,465	\$ 377,006	\$ 276,082
<u>Sources:</u>							
<i>Town of Hampden Financial Statements with Independent Auditor's Report, FY11, 13, 14 and 15.</i>							
<i>Amortization Schedules, Outstanding Sewer Fund Debt.</i>							

To inform future capital planning, it is worth noting that the next bond to be completely paid off will be the 1997 A bonds, which will be paid off in FY18.

Anticipated New Debt Obligations in FY17

Based on the terms of the Interlocal Agreement between Bangor and Hampden, it is projected that the Hampden Sewer Fund will be responsible for 8.33% of the costs of improvement to the Biotower at the Bangor Wastewater Treatment Plant.

Bangor has estimated total project costs of approximately \$4.3 to \$4.5 million, which would result in a Hampden share of approximately \$354,000. Bids on the project were due last week so, once a bid is awarded, better information will be available regarding these costs and their timing.

I have also had preliminary conversations with Bond Counsel regarding the likely need to finance the Sewer Fund's payment of amounts due and past due to the City of Bangor. In the coming months I will be working with the Bangor Finance Director to establish a timeline to get current, and will be working with Bond Counsel regarding how to make this happen.

<sup>7</sup> Town Charter Sec. 704(2).

**Town Manager FY17 Budget Message, June 12, 2016**

**Estimate Income**<sup>8</sup> (with comparative figures: FY15, FY16 YTD)

The estimated income from sewer bills takes into account the revised rate structure that took effect in March 2016. New rates will apply to the 2016 second quarter bills to be mailed in July, so increased revenues will be realized throughout FY17.

<b>Sewer Revenue Budget</b>			
	2014/2015	2015/2016	2016/2017
Account	Received	Received 6/12/2016	Budget
60 - SEWER			
<b>01 - SEWER BILLS</b>	\$546,375.68	\$542,517.80	\$ 943,844.96
<b>03 - INTEREST ON SEWER BILLS</b>	\$1,923.80	\$1,666.60	\$1,735.00
<b>05 - INTEREST/COSTS ON SEWER LIENS</b>	\$9,696.57	\$869.38	\$9,050.00
<b>08 - ABATEMENTS</b>	(\$14,003.43)	(\$382.92)	
<b>23 - INTEREST EARNED ON INVESTMENTS</b>	\$1,234.30		\$1,230.00
<b>24 - CONSTRUCTION INTEREST</b>	\$541.40		\$0.00
<b>60 - SEWER - DEBIT CARD</b>	\$4.00	(\$128.66)	\$0.00
<b>79 - MISC SEWER INCOME</b>	\$0.00	\$44.96	\$0.00
<b>Final Totals</b>	\$545,772.32	\$544,587.16	\$ 955,859.96
	Prior Surplus / (Deficit)	(\$57,002.37)	(\$106,746.45)
		Projected Surplus / (Deficit)	(\$31,477.39)

Sewer Fund, Anticipated Net Surplus or Deficit and Proposed Method of Disposition<sup>9</sup>

Proposed sewer expenses of approximately \$980,000 exceed projected revenues of approximately \$956,000 by approximately \$24,000.

Sewer rates are expected to be reviewed in FY17 (est. fall 2016). It is also likely that borrowing will be proposed at a November 2016 referendum in order to bring the Sewer Fund current with its outstanding obligations. Rates will be reviewed in light of actual and projected expenses.

In order to cover all of the proposed expenses in this budget, pay back charges currently due to the City of Bangor (\$322,810 as of today), and exceed the amount paid back to the General Fund for prior interfund transfers (\$651,666 as of today), sewer rates will need to be increased.

Potential New Funding Source

I have preliminary investigated the potential eligibility of the Hampden Sewer Fund to participate in the USDA Rural Development Program. This program offers both grants and favorable financing terms for capital projects, with specific programs set aside for sewer infrastructure. I plan to work with the USDA program office in Bangor to see how this can support our efforts.

<sup>8</sup> Town Charter Sec. 704.

<sup>9</sup> Town Charter Sec. 704(3).

**Proposed Capital Program** *(Expenditures detailed by offices, departments & agencies)*<sup>10</sup>

1. Summary of Contents<sup>11</sup>

The Hampden Capital Planning Workbook included in the proposed budget reflects known and potential capital costs and identified revenues as of May 1, 2016, and taking into account direction of the Town Council, town personnel and the public during the budget process. Projects were provided by Department Heads, are programmed for State or Federal funding with required local matches, and/or were drawn from the Town's previous capital planning exercise in 2008. This will be a "living document" as we continue to refine this based on both improved information, and Town Council priorities, during the FY17 budget hearing and on an ongoing basis in the years ahead.

2. List of All Capital Improvement Proposed to be Undertaken (next 5 Fiscal Years) with supporting information as to the necessity for such improvements<sup>12</sup>

Not all projects included in the attached Workbook are proposed to be undertaken within the next 5 fiscal years. However, the goal is to include all known and potential projects in one place. Supporting documentation is on file in the Town Manager's office and in the offices of other Department Heads. During FY17 we will work to assemble key supporting information and documentation into a single capital planning binder to be made available to the Town Council and to members of the public.

3. Cost Estimates, Methods of Financing and Recommended Time Schedules for Each Improvement<sup>13</sup>

The cost estimates in the Workbook are based on the best information available at this time. For many projects, information sources and other information is noted. Additional work will be needed to advance this to a level where projected costs and revenues, including future debt service, are brought into balance.

4. Estimated Annual Operating and Maintenance Costs of Facilities to be Constructed or Acquired<sup>14</sup>

Additional work will be needed to provide estimates of annual operating and facilities costs as more information becomes known about specific projects.

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<sup>10</sup> Town Charter Sec. 704(2).

<sup>11</sup> Town Charter Sec. 705(b)(1).

<sup>12</sup> Town Charter Sec. 705(b)(2).

<sup>13</sup> Town Charter Sec. 705(b)(3).

<sup>14</sup> Town Charter Sec. 705(b)(4).