AGENDA
LEBANON CITY COUNCIL
JUNE 3, 2020

9. NEW BUSINESS:

9.B – 2021 BUDGET GUIDANCE

In preparation for the FY 2021 budget process, information has been compiled for the Council's review relative to planned tax rate increases and their associated impacts. Please see attached memo from City Manager Mulholland.

ACTION

No action is required. Item is for informational purposes only.

Included in this Section:

1. May 28, 2020 Memo by City Manager Shaun Mulholland re: Impacts of Tax Rate Reductions 2021 & 2022

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TO: Mayor McNamara and City Councilors
FROM: City Manager Shaun Mulholland
DATE: 5/28/20
RE: Impacts of tax rate reductions 2021 & 2022

The purpose of this document is to provide information to the City Council regarding the impacts of departing from the City's current financial management plan. As part of the financial management plan, tax rates, along with water and sewer rates, have increased on a year-to-year basis to build a large enough fund balance and provide for sufficient revenues to meet the demands of anticipated 2021-2022 debt service levels. With the completion of CSO projects as well as other capital projects, the long-projected spike in debt service in 2021 is now upon us.

Due to uncertainty associated with the potential economic impacts of the COVID-19 pandemic, the City Council requested that I produce information regarding the impacts of tax rate increases ranging from 0-3% in 2021. This document attempts to provide that information. It is important to note that the impacts of changes to the City's financial management plan will have a compounding effect on the 2022 Budget. Therefore, additional information has been provided to project those longer-term impacts.

As discussed and delineated in the PowerPoint presentation and memo prepared for the Financial Outlook Workshop on 5/13/20, the City plans to utilize an additional $1.3 million from the Unassigned Fund Balance to smooth the impact of the dramatic increase in debt service in 2021. The Finance Department has predicted for several years the need for tax rate increases of 3% in both 2020 and 2021. A third tax rate increase was projected in 2022 of 3%, however we believe we may be able to reduce that to 2.5% (although that remains to be seen). These projected and planned tax rate increases will provide sufficient tax revenues to meet the debt service payment demands. If tax rates are not increased to these levels, reductions in the operating budget will be necessary. We will not have sufficient resources available in the Unassigned Fund Balance to further smooth the impacts of the debt service increase after 2021 under present projections.

The analysis conducted makes a number of assumptions, to include:

1. Wages increase between 1.5% and 3.0% (Negotiated as part of CBA's with Unions – actual amount within range based on CPI)
2. Health Insurance increases by 10% annually

3. Retirement rates not known for 2022 (used current rates expiring 6/30/2021)
4. Workers' Comp, STD, LTD, Life, Unemployment Insurance, Property Liability Insurance increases by 5%
5. Add $150K to accrued liability account transfer in each year
6. Add $50K to legal appropriations each year for potential abatement cases
7. Add $150K in 2021 and $300K in 2022 for Overlay due to anticipated tax abatement cases
8. Add $350,000 for one-time cost for Finance Software in 2021
9. Remove from 2021 & 2022 Budgets $450K for one-time items in FY 2020 Budget (Assessing - $150K, Clerk - $100K, IT - $200K)
10. All "non-personnel" related appropriations (non-salary and benefits) level-funded for 2021 & 2022
11. Debt service appropriations NOT INCLUDING bonds to be issued in 2020 as it is assumed cost to be offset with Unassigned Fund Balance
12. Revenues other than property taxes remain level
13. Add $15K in 2022 for War Service Credits
14. Assessed valuation increased .5% each year due to new inventory

The City is undergoing a re-valuation of property which changes the estimated assessed valuation of the tax base. This will impact the tax rate to be set in October of 2020. This will likely lower the tax rate but not the actual amount of taxes paid.

One of the unintended consequences of the re-valuation of taxable property will be to create new tax increment for the Downtown Lebanon Tax Increment Finance District. If the TIF District added appreciable inventory of taxable property during this time that would have a positive impact in that it would create new tax increment to flow into the TIF fund. Unfortunately, that is not the case. The increment created in this case will remove tax revenue from the general fund that would have otherwise gone to the general fund. This creates a hole in the City's revenues. The conservative amount for the 2020 Budget is $145,000. The actual amount is likely to be more. The Council could use this increment to pay for the debt service for the Tunnel Project in 2021 however that decision is yet to be made. Therefore, the projections we used to generate the tax rate/budget reduction analysis includes the shortfall of $145,000 in revenue.

The following budget reductions for 2021 and 2022 are based upon the above assumptions:

	2021 Reductions	2022 Reductions
Amount of General Fund Reductions to achieve 0% tax increase	$ 817,000	$ 2,897,000
Amount of General Fund Reductions to achieve .5% tax increase	$ 705,000	$ 2,781,000
Amount of General Fund Reductions to achieve 1.0% tax increase	$ 593,000	$ 2,665,000
Amount of General Fund Reductions to achieve 1.5% tax increase	$ 481,000	$ 2,549,000
Amount of General Fund Reductions to achieve 2.0% tax increase	$ 369,000	$ 2,433,000
Amount of General Fund Reductions to achieve 2.5% tax increase	$ 256,000	$ 2,317,000
Amount of General Fund Reductions to achieve 3.0% tax increase	$ 145,000	$ 2,201,000
Amount of General Fund Reductions to achieve 3.5% tax increase	$ -	$ 2,085,000
Amount of General Fund Reductions to achieve 4.0% tax increase	$ -	$ 1,969,000
Amount of General Fund Reductions to achieve 4.5% tax increase	$ -	$ 1,853,000
Amount of General Fund Reductions to achieve 5.0% tax increase	$ -	$ 1,737,000
Amount of General Fund Reductions to achieve 5.5% tax increase	$ -	$ 1,620,000
Amount of General Fund Reductions to achieve 6.0% tax increase	$ -	$ 1,504,000
Amount of General Fund Reductions to achieve 6.5% tax increase	$ -	$ 1,388,000
Amount of General Fund Reductions to achieve 7.0% tax increase	$ -	$ 1,272,000

I will explain the impacts in services based upon the level of tax rate increase that is chosen for 2021 and 2022 respectively.

The use of the Unassigned Fund Balance to maintain the projected and planned tax rate increases of 3% for 2020 and 2021 is detailed below in each respective year. This assumes no additional funds are available at the end of 2020 and 2021 to add to fund balance. This also does not take into consideration any loss of other revenues to include property tax revenues due to an economic downturn.

Use of Unassigned Balance Summary	2020		2021		2022
Balance 12/31/19 (Estimated)	12,000,000	Bal. 12/31/20	10,155,000	Bal. 12/31/21	6798021
FY Usage to Offset Tax Rate	(1,845,000)	FY Usage	$ (3,359,000)	FY Usage	$ (130,000)
Balance 12/31/20 (Estimated)	10,155,000	Bal. 12/31/21	6,798,021	Bal. 12/31/22	6,670,043
UFB as a % of Appropriations	30.19%		19.00%		19.00%

As you can see from the projections the City's Unassigned Fund Balance will be at the bottom of the acceptable range (19%-24%) at the end of 2021 and remain in that state at the end of 2022.

The Council has routinely focused on the availability and presentation of data in its decision making. At the present time we do not have a good picture of the economic situation in the Upper Valley. The City will have a better assessment of the revenue situation after payment of the first tax bills in July. Additionally, a stimulus bill before Congress that contains appropriations to State and Municipalities to offset losses in revenues (amount other aid) has passed the House of Representatives at just over $3 Trillion. The bill is now in the Senate for consideration. Although it seems unlikely the bill will pass at the $3 Trillion amount, it does seem that some version of the bill will pass at a lesser amount. This bill is likely to be acted upon during the month of June or July.

At this time, it is my recommendation that the Council stay the course and continue with the City's financial management plan. The trajectory we have been on will allow the City to meet its financial obligations, maintain the level of service our citizens are accustomed to, and avert the need for spikes in tax rate increases in future years. At a minimum, I would suggest the Council wait until after the first property tax bills are due as well as wait for the outcome of the stimulus bill before it makes a final decision regarding 2021 Budget guidance.

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