

Tax & Spending Cap

- We heard that we have a “Tax & Spending Cap”
- What is the actual wording of our “Tax Cap?”
- What does it specifically stipulate?
- Do these stipulations actually create -
 - a Property Tax Cap?
 - a Spending Cap?



Tax Cap Calculation

- There are 2 factors that allow an adjustment in the amount to be raised through Property Taxes
 - # 1 - Inflation adjustment using the CPI
 - # 2 - Added taxable property values using building permit values minus demolition values



Tax Cap Adjust #1

Charter Section 43-a stipulates ... “a maximum increase in real estate **tax revenues** ... from the prior budget year ... increased by a factor no more than the change in the Nation Consumer Price Index - Urban ...”



Tax Cap Adjust #2

Charter Section 43-a stipulates ... “maximum increase in real estate **tax revenues** ... by applying the prior year real estate tax rate to the net increase in new construction ... Net increase in new construction is defined as ... total dollar value of building permits less total dollar value of demolition permits ...”



Spending Cap?

Charter Section 43-a stipulates: “Total expenditures for any given budget year shall not exceed the amount of funds reasonably calculated to be derived by the tax rate established herein, **increased by the other revenues generated by the municipality.**”

“Other Revenues” = non-property tax revenues



Other Revenues

- Spending is limited only by the amount of available non-property tax revenues
 - Waste Management Host Fees
 - Auto Registration Revenues
 - Grants from federal, state and other sources
 - Unassigned Fund Balance



Charter Section 43-a

- Therefore, **Supplemental Appropriations** outside the Annual Budget process are permissible
 - Fully funded by non-property tax revenues
 - Do not increase the amount to be raised by property taxation



RSA 49-C33

CITY ATTORNEY O'ROURKE



Supplemental Appropriations

Charter Section 44: Supplemental Appropriations and Transfers



Supplemental Appropriations

Reasons for Supplemental Appropriations:

- Grant opportunities not aligned with fiscal year cycle
- Change in scope or unanticipated expenses in previously approved CIP projects
- Economic Development initiatives not aligned with fiscal year cycle
- Transfers to School Capital Reserve Fund
- Other unanticipated needs, emergencies



Supplemental Appropriations

FY22 Supplemental Appropriations

ITEM	SUPPLEMENTAL DESCRIPTION	AMOUNT	SUPPLEMENTAL REASON	PERCENT ALL TOTAL
1	Grant Acceptance	\$6,753,182	ARPA & Other Grant opportunities-off budget cycle	37.78%
2	General Fund Unassigned Fund Balance-Funding Change	\$3,710,641	Changing bond funding sources prior to next bond application-Apr-22	20.76%
3	General Obligation Bonds	\$2,800,000	Woodman-Myrtle project cost escalations	15.67%
4	NHDES CWSRF-DWSRF Loan Program-Sewer	\$1,485,500	Pump Station & Clarifier projects-SRF loan program applications due 6-1-22	8.31%
5	State Adequacy Grant Transferred to School CRF	\$1,296,285	Council approved unanticipated School grant transfer to CRF	7.25%
6	General Fund Unassigned Fund Balance-Econ Dev Fund	\$1,084,000	Investment into the Economic Development Fund	6.06%
7	Enterprise-Econ Dev-TIF Funds-Retained Earnings	\$439,647	Use of retained earnings in funds for projects outside budget cycle	2.46%
8	Other Municipality Contributions	\$301,969	Related to the MAAM agreement with other municipalites	1.69%
9	Other Donations	\$2,500	Unanticipated donation	0.01%
	All Total	\$17,873,724		100.00%



General Fund Unassigned Fund Balance

- Unassigned Fund Balance is a balance sheet calculation.
- Balance sheets track Assets & Liabilities, and measures liquidity.
 - Liquidity can serve as a measure of fiscal health for the municipality and is a factor in bond ratings.
- $\text{Current Assets} - \text{Current Liabilities} = \text{Total Fund Balance}$.



General Fund Unassigned Fund Balance

- Unassigned Fund Balance is the classification name given to the net position of Current Assets minus Current Liabilities, less Restricted, Dedicated & Non-Spendable categories.
- Amounts of the net position remain “Unassigned” until assigned to a new activity.
- Private Sector Accounting designates this same net position as “Working Capital”



General Fund Unassigned Fund Balance

- Utilization of Unassigned Fund Balance is governed by City ordinance §7-62
- Utilization requires a public hearing and 2/3rd affirmative Council vote.



General Fund Unassigned Fund Balance

Summary

- City has a substantial and aging asset base- \$531MM, 49% depreciated.
- City has large annual O&M & CIP cash needs of \$200MM.
- City holds short term cash investments to extent of Unassigned Fund balance, which earn interest.
- City utilizes Unassigned Fund Balance prudently & in compliance with Ordinance §7-62.



General Fund Unassigned Fund Balance

General Fund-Period Ending 6-30-21

- Current Assets: \$58,406,887
- Current Liabilities: \$29,161,081
- Total Fund Balance: \$29,245,806
- Restricted & Non-Spendable (\$70,159)
- Unassigned Fund Balance: **\$29,175,646**



General Fund Unassigned Fund Balance

Major Fund Balance Contributors-6-30-21

Major Contributors	Amount
School Department - Unexpended Appropriations	3,358,802.34
School Department Revenue Surplus	436,419.16
General Overhead - Host Community Fees	761,561.46
Tax Collector - Motor Vehicle Permits	1,943,414.98
City General Fund-Unexpended Appropriations	1,580,768.84
All Other Net Expense & Revenue Changes	(1,071,860.10)
Combined Net Changes	7,009,106.68

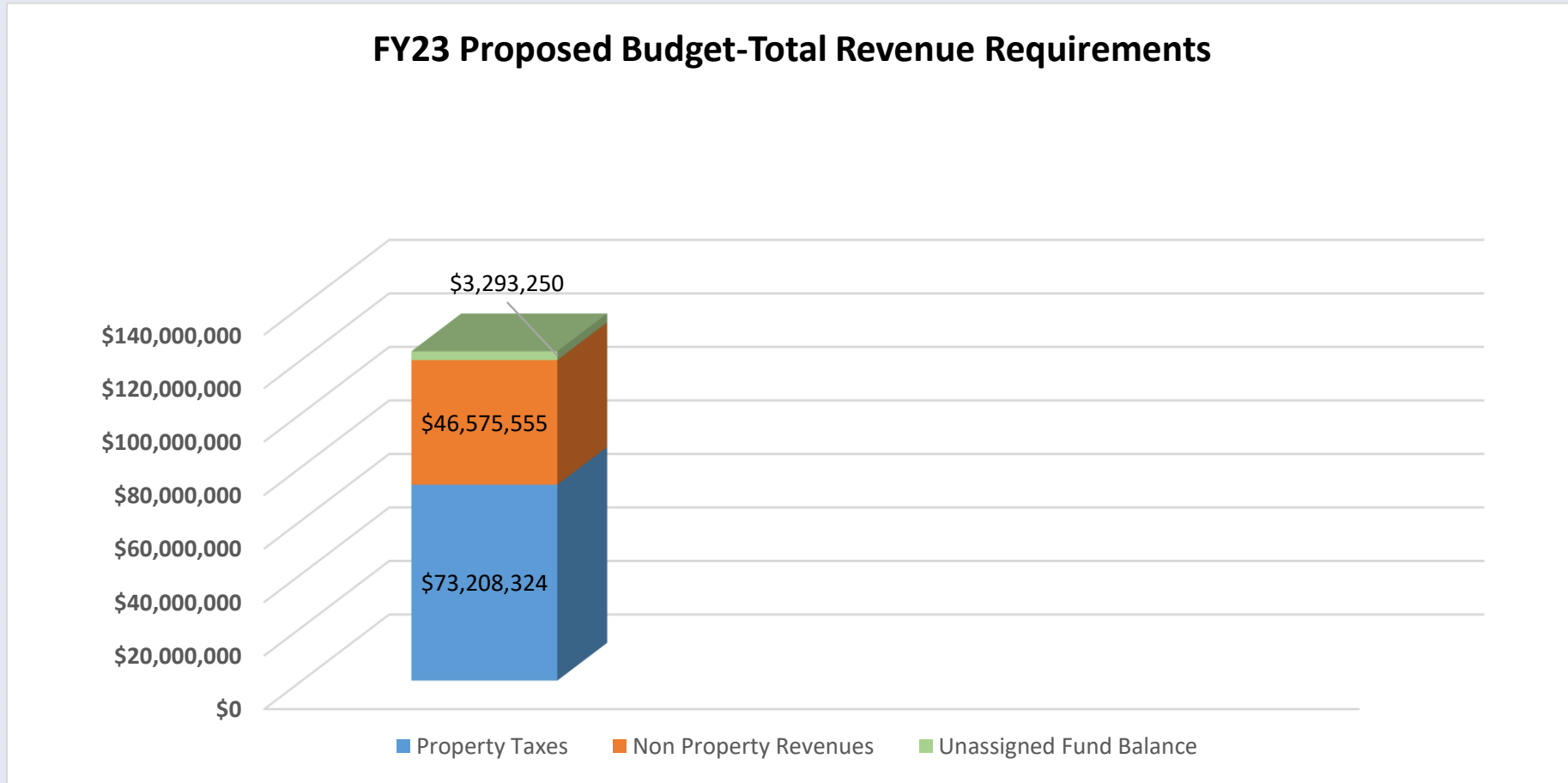
General Fund Unassigned Fund Balance

Use of Unassigned Fund Balance FY17 to FY22

Category	FY22	FY21	FY20	FY19	FY18	FY17
Adopted Use of Unassigned FB	\$3,047,064	\$1,000,000	\$1,325,000	\$1,275,000	\$1,262,981	\$1,942,149
Supplemental Appropriations-Projects	\$500,000	\$2,160,000	\$3,924,966	\$1,113,706	\$1,591,381	\$1,145,823
Change of Funding from Bonding	\$3,710,639	\$17,674	\$2,051,373	\$0	\$0	\$0
School Special Education Costs	\$0	\$0	\$1,038,000	\$0	\$1,200,000	\$0
Transfer to School Capital Reserves	\$0	\$0	\$1,151,863	\$824,762	\$173,504	\$796,326
Transfer of Land Use Change Tax	\$127,314	\$0	\$28,053	\$0	\$0	\$0
Establish City Capital Reserves	\$1,500,000	\$0	\$0	\$0	\$0	\$0
Transfer to Economic Develop Fund	\$1,084,000	\$0	\$0	\$0	\$0	\$0
All Totals	\$9,969,017	\$3,177,674	\$9,519,255	\$3,213,468	\$4,227,866	\$3,884,298



General Fund Unassigned Fund Balance



General Fund Unassigned Fund Balance

Complications of Utilizing Unassigned Fund Balance as Direct Property Tax Relief.

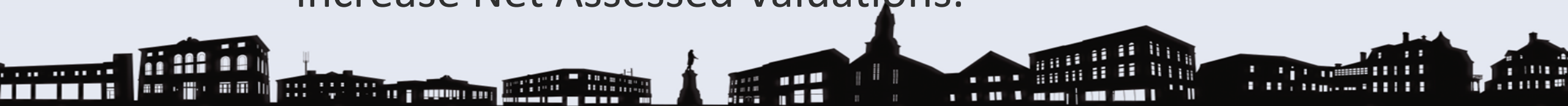
- The Unassigned Fund Balance Tax Relief is for only one fiscal year.
- Next budget cycle the Amount to be Raised by Property Taxes automatically increases.
- Tax Cap Override in the following year a strong possibility.
- Without Tax Cap Override, steep budgetary reductions required in order to supplant the revenue loss.



General Fund Unassigned Fund Balance

Better Utilization of Unassigned Fund Balance: Pay it Forward

- Change projects funded from bonding to cash. This eliminates future Principal & Interest expenses.
- Continue to use as funding source in subsequent CIP budgets & supplemental appropriations.
- Utilize for investments in Capital Reserve Funds.
- Utilize for Economic Development projects that increase Net Assessed Valuations.



Proposed Capital Reserve Funds

- Resolution Pursuant to RSA 34:1 Establishing a **Fire Apparatus Replacement** Capital Reserve Fund of \$500,000
- Resolution Pursuant to RSA 34:1 Establishing a **City Buildings Renovations** Capital Reserve Fund of \$500,000
- Resolution Pursuant to RSA 34:1 Establishing a **Public Works Apparatus Replacement** Capital Reserve Fund of \$500,000



Questions Raised

- Why are these CRF items not included in the upcoming Annual Budget process?
- Are the funding sources for these CRF's different because they are not included in the Annual Budget process?
- Why create these separate capital reserve funds and not simply include in the Annual Budget process?



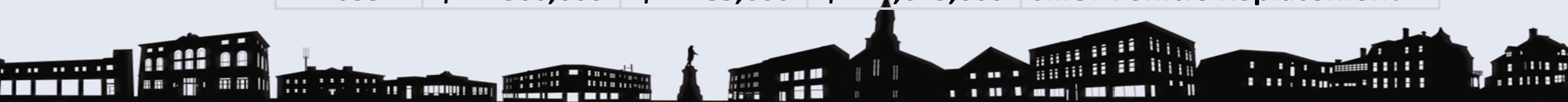
Questions Raised

- Why are these proposed capital reserve appropriations not a part of “a long-range plan?”
- Why would capital reserve fund monies be turned over to the Trustees of the Trust Funds which incur “management fees?”
- How do these management fees compare with interest earned on investing the funds?



Fire Apparatus CRF

<u>Fiscal</u> <u>Year</u>	<u>Annual</u> <u>Contribution</u>	<u>Annual</u> <u>Expenditure</u>	<u>Running</u> <u>Balance</u>	<u>Expenditure Purpose</u>
2022	\$ 500,000	\$ -	\$ 500,000	
2023	\$ 500,000	\$ 225,000	\$ 775,000	Forestry Truck
2024	\$ 500,000	\$ -	\$ 1,275,000	
2025	\$ 500,000	\$ 1,300,000	\$ 475,000	Aerial Replacement
2026	\$ 500,000	\$ -	\$ 975,000	
2027	\$ 500,000	\$ 700,000	\$ 775,000	Tanker/ Pumper
2028	\$ 500,000	\$ -	\$ 1,275,000	
2029	\$ 500,000	\$ 75,000	\$ 1,700,000	Chief Vehicle Replacement
2030	\$ 500,000	\$ -	\$ 2,200,000	
2031	\$ 500,000	\$ 2,000,000	\$ 700,000	Station 3 Apparatus
2032	\$ 500,000	\$ -	\$ 1,200,000	
2033	\$ 500,000	\$ 85,000	\$ 1,615,000	Chief Vehicle Replacement



Questions Answered

After initial creation and first appropriation, all subsequent actions will be a part of the Annual Budget process:

- Annual Contribution to CRF's will require Council action and will be requested during Annual Budget process
- Expenditures from CRF's will be included in 6 Year CIP budgets requiring Council approval during Annual Budget process



Questions Answered

- The source of funding for these capital expenditures are the same –
 - Capital expenditures for Fire Apparatus have traditionally been funded using Unassigned Fund Balance
 - Capital expenditures for Fire Apparatus using a CRF are proposed to be funded using Unassigned Fund Balance



Questions Answered

- These proposed capital expenditures are part of “a long-range plan”
 - Fire Apparatus replacements are included in the 6 Year CIP Plan (FY2023 CIP Book, page 37, 158)
 - City Building Renovations are included in the 6 Year CIP Plan (FY2023 CIP Book, pages 21)
 - Public Works Apparatus replacements are included in the 6 Year CIP Plan (FY2023 CIP Book, page 52, 152-155)



Questions Answered

- Why create Capital Reserve Funds –
 - Level annual funding approach eliminates large swings in funding requests = budget stability
 - Provides department heads a better sense of funding levels into the future for planning purposes
 - Requires department heads to look further into the future with expenditure plans



Trustees of Trust Funds

- CRF statute RSA 34:6 stipulates “The trustees of trust funds of the city shall have custody of all capital reserves.”
- Trustees do not have to turn over CRF monies to their third-party funds management company thus incurring “management fees.”
- Management fees are offset by the rates of return achieved by the third-party management company.



Interest Income

- Monies held by the City in liquid investment accounts currently earn as little as 0.18% or as high as 0.30%
- Trustees of Trust Fund treasury bonds are earning 2.7% - 2.9%
- Net out a 0.50% management fee = return of over 2% on funds held by Trustees



Interest Income

Placing CRF monies with the Trustees of the Trust Fund will garner more Interest Income

Fiscal Year	Begin Balance	Deposit	Net Interest Earned 2%	Withdrawal	End Balance	Cumulative Interest Earned	Activity
FY23		\$500,000	\$10,000	\$0	\$510,000	\$10,000	
FY24	\$510,000	\$200,000	\$14,200	\$225,000	\$499,200	\$24,200	Fire Forestry Vehicle
FY25	\$499,200	\$200,000	\$13,984	\$650,000	\$63,184	\$38,184	Fire Pumper Truck
FY26	\$63,184	\$250,000	\$6,264	\$0	\$319,448	\$44,448	
FY27	\$319,448	\$250,000	\$11,389	\$650,000	-\$69,163	\$55,837	Fire Pumper Truck
FY28	-\$69,163	\$200,000	\$2,617	\$0	\$133,453	\$58,453	
FY29	\$133,453	\$100,000	\$4,669	\$0	\$238,122	\$63,122	
FY30	\$238,122	\$100,000	\$6,762	\$0	\$344,885	\$69,885	
FY31	\$344,885	\$100,000	\$8,898	\$0	\$453,783	\$78,783	
FY32	\$453,783	\$100,000	\$11,076	\$0	\$564,858	\$89,858	
Totals		\$2,000,000		\$1,525,000	\$564,858	\$89,858	



“Buying Down the Tax Rate”

- Question – why not lower the tax rate using Unassigned Fund Balance?
- Answer – ongoing operating expenses should not be funded using non-recurring revenues.



Unassigned Fund Balance is a Non-Recurring Revenue

Non-Recurring revenues are defined as revenues outside of the tax levy that are not reasonably expected to be available at constant levels for spending in the following year(s).

The result could be major swings in the tax rate.



Tax Cap Factor

- Use of a Non-Recurring Revenue, such as Fund Balance, under a Tax Cap is especially problematic
- Once the non-recurring revenue is depleted, the tax levy is not able to be adjusted adequately to make up the loss
- Unless major cuts in services, a tax cap override and major immediate tax rate increase would be needed to meet ongoing costs of operating expenses



New DPW Facility Project

- Total Appropriations \$22,525,000
- Bonded 2020- \$10,525,000
- Balance to Bond-\$12,000,000
- DPW Anticipating \$500,000 surplus, which would be deauthorized.
 - Unexpended appropriations with a bonding funding source cannot legally be bonded and will be deauthorized by Council.



Impact of Landfill Closure

- When is the Waste Management landfill estimated to close?
The year 2034
- What will be lost – **property taxes, host fees, free disposal of solid waste**
- How can the City anticipate & offset the anticipated losses?
Econ Dev Reserve Fund and Econ Dev efforts to foster tax base growth (Assessed Value from TIF's)



Enterprise Funds & Tax Cap

- Appropriations and Supplemental Appropriations for Water & Sewer do not impact the Tax Cap
- Water Fund is an **Enterprise** Fund
- Sewer Fund is an **Enterprise** Fund



Enterprise Fund v. General Fund

- General Fund is supported mostly through property taxes, along with non-property tax revenues
- Enterprise Funds are supported through User Fees charged for the services they provide
- Enterprise Funds are self-supporting



TIF Districts & Property Taxes

- Tax Increment Financing (TIF) districts do not provide tax incentives or tax breaks
- Property Taxpayers in TIF districts pay a full tax bill
- TIF districts simply allow municipalities to dedicate tax revenues to pay for public infrastructure (roads, water, sewer)



“Free Money”

MAYOR CALLAGHAN



Lack of Public Input

MAYOR CALLAGHAN

