City of Biddeford, Maine

The Office of
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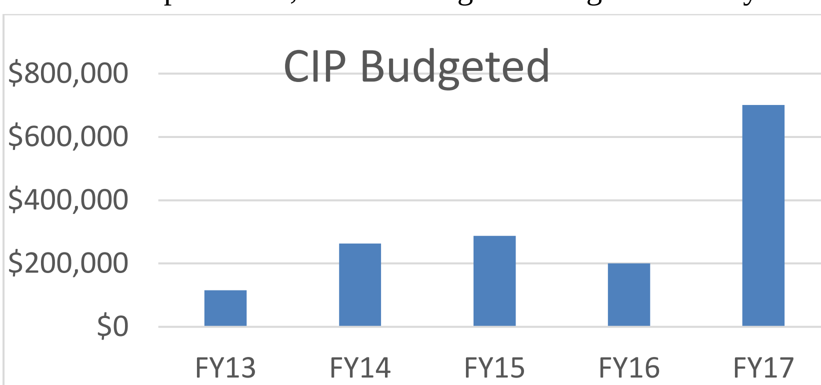
MEMORANDUM

TO:	**Honorable Mayor Casavant** **Honorable City Council**
FROM:	James A. Bennett, City Manager
DATE:	April 27, 2017
RE:	**Policy Decisions Contained with FY18 Budget**

The proposed FY18 budget contains a number of policy recommendations that I would classify as significant change in the past direction. In order to assist the Council, I have prepared this memo to specifically outline those issues. Each of them are summarized below in no particular order:

- *Road paving:* specific funds for capital budgeting have not been placed in the budget at any significant level. A strong argument could be made that the City should be annually budgeting at a minimum $1,500,000 in paving, another $700,000 for vehicle replacements, and another $800,000 for other (including road reconstruction, buildings, sidewalks, subsurface issues, fields and other assets). As you may recall, not including schools, the City is responsible for approximately $120,000,000 in capital assets. The following charts captures the funding for specific capital for the last five years ($115,500, $263,400, $287,700, $200,416 and $700,935). The City has used lease/purchases, debt and larger contingencies to try to cover the shortfall.



The proposed budget includes $1,793,485; the additional funds of $1,227,550 is directly responsible for $0.54 of the $0.99 increase. The City has paid $1,831,549 in interest since FY09 on vehicle purchases. This was when interest rates were at historical lows. The budget recommends paying cash for most vehicles going forward; resulting in $439,450 in additional cash to be raised today (which is part of the $1,227,500). In FY13, the City owed $4,375,883 in principle on leases; today it is $5,260,771. Annual payments have gone from $573,731 in FY13 ($473,030.70 principle, $100,700.30 interest) to $919,228.17 in FY18 ($806,158.29 principle, $113,069.89 interest). The budget, as submitted, the principle would be reduced by $405,108.29; as submitted by department heads using current practice, it would increase by

$34,341.71. An aggressive change in direction with discipline over the next 5 to 7 years, will reduce the debt significantly. In five years (FY23) the principle owed would be about $500,000; in FY24 it would be about $275,000 and all but gone by FY25.

This policy change (as it related to vehicle purchases) added $0.19 to the tax rate in the proposed FY18 budget; elimination of all lease purchase in FY18 would require another $0.18 on the tax rate.

The inclusion of $500,000 for resurfacing of roads added $0.22 to the tax rate.

- *Separate and independent funds:* most Maine communities approach non-property tax revenues as general assets of the community. All revenues are used to reduce the tax commitment (total amount of money needed to be raised by the property tax). Communities that started as Mayor or Commission forms of government, often have an excessive amount of isolated funds. I recall that the former City Manager Benway shared that there in excess of 50 separate bank accounts when he started in the 1990's. The issue is significantly reduced today. However, there remains some that I would suggest should become part of the general fund. The following is the list of all funds (not including schools) that includes the FY16 revenue followed by FY16 fund balance;
  - *Mooring fees:* $25,661/$70,428
  - *Pool Beach Permits:* $83,208/$279,182
  - *Airport:* $351,626/($383,799)
  - *Community TV:* $269,237/$60,041
  - *Recreation programs:* $255,346/$298,578

  There are two major points in making the change to some of the funds; first, if the funds were considered through the same property tax lens, would you really be spending the money the way you are. I would think that looking backwards, if property taxes were considered the source of funding, would you have built the cable tv studio as it got done? Second, allocation of the funding would have reduced the property taxes paid.

- *General administrative costs:* the proposed budget tried to make sure all separate funds were paying a fair general administrative cost for the services they received. If the general administrative cost is less than it should be, property taxpayers are subsidizing those accounts/funds. Obviously, if the charge was high, the reverse is true (such was not the case). A calculation of the general administrative costs (based on FY17 budget) was 10.87% based on the following:

City Manager		$280,546
Finance & Tax		$415,620
City Hall Building		$184,268
General Administration	$2,883,645	
Police Professional Liability	*-62627*	
Bad Debt	*-375000*	
Net General Admin		$2,446,018
Total Admin Expenses		$3,326,452
Total General Budget		$30,613,403
General Admin Percent		10.87%

The general administrative charges were increased from $86,913 in FY17 to $233,000 in the proposed budget; or a reduction of $0.06 in the proposed tax rate. The following chart shows the sources of those funds:

		DH Request	Gen Adm Charge	Current	City Mgr Rec
31102	Mooring Fees	$45,739	$4,970	$3,000	$5,000
31106	Pool Beaches Ops/Improves	$110,272	$11,982	$1,200	$20,000
31117	CDBG Grant Administration	$173,542	$18,857		$0
31132	Airport Operations	$674,621	$73,304	$1,200	$3,000
31138	Community TV Center Operations	$263,706	$28,654	$3,000	$10,000
312xx	Recreation Programs	$563,905	$61,274	$3,000	$15,000
311xx	Route 111/Mill District TIF	$842,998	$91,600	$15,513	$30,000
35102	Sewer Operations	$2,300,481	$503,440	$60,000	$150,000
35103	Sewer Ind Pretreat Program	$48,807			$0
35104	P.W. Wastewater Maintenance	$786,682			$0
35105	New Sewer Operations Exp	$1,497,199	-	-	$0
		$7,307,951	$794,082	$86,913	$233,000

- *Cable TV loan:* the budget contemplates the immediate payoff of the bank loan for this project in order free up about $30,000 of expenses in FY18. $10,000 will be used for the above general admin costs. The early payment of the loan would eliminate the $60,000 fund balance in that account. It would also generate about $15,000 back into the fund balance account at the end of FY18.
- *Part II budget:* the city did sell the Pate property on March 31; anticipation of $490,000 in related building fees from the court project and $425,000 in the same from the Lincoln Mill project are strong possibilities in FY18. These were not budgeted in the FY18 general fund but set up as a new *'separate'* one time revenue/expense account called the Part II budget. If the funds occur, the suggestion is to use the funds as follows:

Vacation Buy Back	$225,000	Reserve, carried forward
Separation Pay	$125,000	Reserve, carried forward
Fund Balance	$200,000	One Time
Elimination of FY18 lease	$360,000	One Time

If accepted, the vacation buy back and separation pay would become permanent reserve accounts. Currently, the maximum exposure for vacation buy back is $304,520.76; $100,000 is currently budgeted in the General Administration #21111-60795. The plan would be to use those funds first. If exhausted, a transfer from this reserve would be made at year end to the actual amount. In FY19, the amount spent in FY18 would be budgeted; any amount needed to restore the $225,000 reserve would be allocated. This will provide a more stable way to account for this expense. Previously, a proper amount was not budgeted.

The same would happen with separation pay. Currently, there is $125,000 budgeted in the same account line (21111-60795).

Finally awarding of the lease purchase bids occur in the middle of the operating year. Should both projects move forward, we would know if there would be funding in place to eliminate the FY18 lease purchase payments. While this recommendation would be a one-time use of the funds, it would be helpful in shifting away from the lease/purchase program.

Allocation to fund balance would be very strategic in dealing with the rating agencies as we think about the conversion of the BAN funds for the parking garage in Fall of 2019 (after the FY18 audit is completed).

- *Funding of all personnel costs:* with the support of the Part II budget above, the FY18 budget provides funding for all of the personnel liabilities with the exception of the separation pay. While the City owed $3,400,209 in 'compensated absences' on June 30, 2017, all employees would never leave in the same year. Beginning to fund for these at the level suggested will protect the fund balance. In the long term, it would be wise to begin to allocate specific year end balances into a dedicated reserve. Given the some of the changes made in the labor contracts and the personnel policy, we expect a lower liability at FY17 year end.
- *CSO loan payment:* the new $3,925,000 debt for CSO work has been allocated evenly between the WWTP fund and the general fund resulting in a $166,114.72 impact on each budget. Shifting the payment back to the City side would increase the tax rate by $0.07. Most communities split such costs equally between the two. In fact, the $600,000 repayment to the WWTP fund includes a 33% repayment for the 1994 CSO work. The financial impact on the WWTP is discussed in a different section.
- *TIF allocation:* the final FY17 budget included a transfer of $227,382 to cover payroll and consultant services in that budget. In the FY18 budget, only $70,000 is being recommended to cover a portion of the same costs ($130,185). The suggestion is to transition TIF funds primarily for capital investments that will generate additional investment. As a reminder, the general administration transfer from the TIF was increased by $14,487. Shifting back to the old would result in a net change of $45,698 or $0.02 savings on the tax rate.
- *WWTP rate increase:* the current budget for WWTP includes the policy changes above, would require an additional $286,114.72 in revenues. Without looking at the structure of the bills, staff would traditionally share that it would require a $0.47 increase in the rates. I have asked staff to gather more information about the current bills in order to make a better policy recommendation. We expect that to be given at one of the workshops. As an example, most seniors do not use the full 11.7 cubic 100 ft per quarter (the minimum). We also expect our summer residents are saving around $25,000 to $30,000 annually by shutting off their water because of current policy. An analysis of these issues may allow us to minimize the impact on very low users and still raise the funds necessary.
- *Downtown district:* the creation of the downtown district shifts some funding that have historically been paid from the general fund albeit a very small amount. It should be noted the majority of funding, however is an augment for extra services in the downtown area. The program is designed to be phased in over two years (not including the 100% funding in FY17 for plantings this spring if this is supported by the Council). Failure to enact the district will require about $35,000 to added back into the tax rate or $0.02. Those funds would be cover half the full time person, $15,000 of additional funding for HOB and the funds for DDC.
- *Other reserve accounts have the following balances (as of 6-30-16):* there is nothing within the budget that is related to these accounts directly but is being provided as an FYI only
    - *CDBG:* $24,537
    - *Environmental reserve:* $4,079

- *Industrial parks:* $204,501
- *Property sales:* $27,046
- *Shellfish fees: $86,097*
- *Rotary park impact fees: $20,925*
- *Cartmill trust: $1,228,920*
- *Festivals: $5,705*
- *Fire grant and donations: $5,725*

Some Concluding Thoughts

On the night I presented the budget, I concluded the presentation by sharing with you that for the first time in my career, I have prepared a budget that I could not endorse as a final product for adoption. Simply put, the budget includes a number of policy issues, as outlined above, that needs a deliberative dialogue among the Council. The staff and I remain committed to being helpful in your deliberations.

As always, please feel free to ask for the information that you might need or to seek clarifications to the questions you might have.