
City of Lambertville

2020 Budget Presentations
Part Five - December 19th 2019

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The vision of a new budget process

- **A City government** which leverages the expertise of its staff to build a responsible, long-term, and transparent budget.
- **A City budget** which can both be easily accessed, and used to derive valuable information from, by all stakeholders including the public.
- **A public** that is able to use the City's budget to get more educated about, involved, and taking ownership over what's happening in their community.

The **challenges** of a new budget process

- Costs are distributed to accounts and charged to capital accounts in such a way that generating insightful reports is nearly impossible
- Many operating costs have been charged to capital accounts, which is extremely difficult to reverse without a major tax impact
- Operating budgets have little/no cushion to allow for new programs and needs
- Lack of documentation and written agreements in place for various payees
- No existing capital plan or long-term analysis/forecasting exist, those must be created from scratch
- Appropriations and revenues are tied too closely together for several departments, making accurate budgeting challenging and contributing to a revenue-focused culture

The **opportunities** of a new budget process

- **Department Heads** can take more ownership over planning and implementing their budgets and departments, and the City can better leverage their expertise
- **The Business Administrator** is able to bring all fragmented pieces together under a unified financial (and capital) plan and within a single budgeting framework, which helps inform other policy/program areas, for the first time, and helps focus stakeholder attention in the highest priority areas
- **The Mayor** is able to share an unprecedented level of budget/finance information to the community, going from only the state-mandated documentation to one of the most transparent budgets in the state
- **The Governing Body** can access significantly greater information about the City's operations and long-term plans, giving much more context with which to make ultimate decisions about the budget
- **The public** can access clear and organized budget information for the first time, helping provide new educational and engagement opportunities

The timeline of a new budget process

Early August 2019	Governing Body goal setting process - workshop where Governing Body sets goals/priorities for the coming year
Early August 2019	DCCB's are briefed on new budget process and provided summary sheet of the timeline and steps for new process
September 2019	Capital planning (for six years) begun, including facility reviews, vehicle inventories, infrastructure evaluation, etc
Mid October 2019	All operating and capital requests due from DCCB's
Mid/Late October 2019	Administration discusses and finalizes requests with DCCB's, helps create facility/capital requests and plans
End of October 2019	Mayor and Administrator finalize requests for Governing Body, and Mayor holds several budget meetings with various community groups/neighborhoods
November 2019	Two public budget workshops held, Nov 12 and Nov 14th, where DCCB's present a "year in review" as well as operating and capital requests
November/December 2019	Preliminary 2020 Overview and Proposed Programs presented by Mayor and Administrator in subsequent Governing Body meetings
December 2019	Feedback (from governing and/or public) from budget workshops taken back and Administrator and Mayor finalize anticipated 2020 budget introduction
January/February 2020	Budget is reviewed by Financial Team, and ready for introduction as soon as state/county/etc numbers become available
Late February/Early March 2020	In three sequential governing body meetings: <ul style="list-style-type: none"> • Municipal Budget Discussion • Municipal Budget First Reading/Introduction (and explanation) • Municipal Budget Public Hearing and Second Reading/ Adoption
End of March 2020/Early April	2020 Municipal Budget Adopted
Early April 2020	Bond ordinance (if needed) for 2020 capital items introduced/adopted
April 2020	2020 Capital spending, road resurfacing, etc will begin

Presentation Goals

These presentations are:

- Submitted Operating and Capital requests, with some explanation/context from Administration
- An opportunity for the Governing Body and public to ask questions and/or provide key early-stage feedback that helps guide subsequent budget planning and prioritization
- **The starting point** of 2020 budget discussions with the Governing Body

These presentations are not:

- An overview or summary of the 2020 Budget
- Final review or authorization of any capital items or creation of a capital plan
- A discussion of 2020 statutory costs or revenues
- A prioritization of any submitted or requested item
- The discussion of proposed finance/budgeting solutions, programs or policies

The above items are discussed at the subsequent Governing Body meeting

Important Information

Before moving forward, it's important to at a minimum, to have already watched and/or reviewed:

- Summary and full PDF of August Introductory Presentation
- All other prior budget presentations

Please remember: What follows are only the initial requests, subject and likely to change as the budget is further developed. This includes the names and types of budget accounts presented, some of which are being re-organized for 2020. At various points numbers may be estimated or projected. If you have any questions, or encounter any errors, please reach out to us.

Key areas of revenue

Revenues

Revenue can basically come from two overall sources:



Revenues

Let's explore a more detailed list of where revenue comes from

	\$	%
1. SURPLUS ANTICIPATED	\$ 445,454.00	7.90%
3. MISCELLANEOUS REVENUES - SECTION A: LOCAL REVENUES	\$ 699,933.00	12.41%
3. MISCELLANEOUS REVENUES - SECTION B: STATE AID	\$ 415,070.00	7.36%
3. MISCELLANEOUS REVENUES - SECTION C: UNIFORM CONSTRUCTION CODE FEES	\$ 185,047.00	3.28%
3. MISCELLANEOUS REVENUES - SECTION D: INTERLOCAL SERVICES	\$ 2,250.00	0.04%
3. MISCELLANEOUS REVENUES - SECTION E: ADDITIONAL REVENUES	\$ 4,368.00	0.08%
3. MISCELLANEOUS REVENUES - SECTION F: PUBLIC AND PRIVATE REVENUE	\$ 12,041.95	0.21%
3. MISCELLANEOUS REVENUES - SECTION G: OTHER SPECIAL ITEMS	\$ 870,279.06	15.44%
4. RECEIPTS FROM DELINQUENT TAXES	\$ 153,750.00	2.73%
6. AMOUNT TO BE RAISED BY TAXES - A: LOCAL TAX FOR MUNICIPAL PURPOSES	\$ 2,590,794.47	45.95%
6. AMOUNT TO BE RAISED BY TAXES - C: MINIMUM LIBRARY TAX	\$ 259,010.42	4.59%
	\$5,637,997.90	100.00%

Revenues

In Lambertville, approximately 47% of the budget is raised through taxes. Compare with a few other municipalities

South Orange	65%		Leonia	75%
Frenchtown	64%		Hopewell	69%
Milford	57%		Flemington	76%
Red Bank	62%		West Amwell	44%
Trenton	37%		Princeton	55%

Revenues

Having too much of your baseline revenue (what's needed to fund operations) come from non-tax sources:

- Can put more pressure on fee or fine based departments to collect more revenue
- Creates cash on hand problems when revenue fluctuates
- Makes it difficult to budget for future years
- Makes it harder to build a structurally regenerative fund balance (surplus)
- Makes the true cost of government less transparent

Revenues

Increasing the number of people or entities who pay into the tax base:

- Helps generate more stable, guaranteed revenue, rather than variable revenue (from non-tax sources)
- It can reduce the share of what existing taxpayers need to contribute.

Looking at the future

Refresher: Problem statements (From August)

Process for generating “surplus” or fund balance

Total amount of debt accrued

Process for funding debt service & Lack of capital planning and project budgets

Lack of certain/necessary items in operating budget

Not keeping up with rising costs

Existence of a structural deficit

What are some examples of goals or metrics?

Process for generating “surplus” or fund balance

Regenerating enough fund balance to add a set percent (~ 5%) of annual budget to surplus each year

Increase of surplus could reduce dependence on borrowing, lower interest rates, create a cushion for large purchases, improve bond rating.

Total amount of debt accrued

Debt service on track to being under 10% of the annual budget

Means debt payments and capital spending at a sustainable level. Opens up new discretion in operating budget and can lessen taxpayer impact.

Process for funding debt service & Lack of capital planning and project budgets

Reducing number of bond or capital ordinances each year

A capital improvement plan would be created, adopted, and implemented such that borrowing happened (approx) once per year.

Lack of certain/necessary items in operating budget

At least 75% reduction in transfers needed at the end of the year from 2017 - 2019 average

Would show that accounts are budgeted properly for what they actually are used for and indicate a reduction of staff time and increase in financial reporting.

Not keeping up with rising costs

“Building” budget each year to keep with inflation/rising costs

We would incrementally keep or increase the purchasing power of each budget account each year, rather than get behind and require large increases.

Existence of a structural deficit

Elimination of the structural deficit

Every budget would have recurring revenues that match recurring appropriations - everything properly budgeted for.

What do we know at this point?

We know that for years, appropriations have not kept up pace with inflation or the demand or needs of the community. The key areas we have focused on that have driven these costs are capital projects, debt service, and professional service fees.

We know that revenues are too dependent on non-tax revenue, and rateables have not grown sufficiently over time to cover the costs mentioned above.

What do we know at this point?

As was discussed in August, when there is more spending than there is funding, a deficit exists.

If that deficit is built into the budget such that it reoccurs every year, that can be called a structural deficit.

What do we know at this point?

Lambertville's total structural deficit is significant - likely between \$600,000 and \$1,00,000 per year for the next five years.

This means that we have to find a way to fund somewhere between \$3 million and \$5 million of money that is currently not properly budgeted.

Refresher: Key areas that are contributing to the deficit

Category	Summary	Key takeaways
Salaries and Wages	All personnel salaries, contractual/non contractual and overtime.	Minimally discretionary - approximately half the total costs here are obligated by Collective Bargaining Unit agreement, and the rest by other employees who perform vital functions. The small increases in S&W lines since 2015 have not kept up with inflation, leaving various employees with the same or lower pay (in purchasing power) than they had in 2015. The amount allocated for S&W in 2015 (\$1,715,114) would need to be \$1,888,594.38 in 2019 to have the same purchasing power as it did in 2015. It is \$156,292.38 short of that.
Other Expenses	Utility payments, internet service, office supplies, mileage, payments for contractors/vendors	Many recurring purchases are not budgeted for. This means that we can't track expenses over time easily , and that items need to be charged to accounts to which they don't belong. This also results in many end of year transfers.
Professional Services	This includes all payments made to all contracted professionals for work on capital or non-capital projects, such as from the City's attorney, engineer, architect, bond attorney, labor attorney, redevelopment attorney.	There are many services in the City performed by consultants at a much higher rate than it would cost from a salaried employee , and which are difficult to track over time because the costs are distributed across different accounts. Additionally, some fees are higher than market rates, and various NTE (Not To Exceeds) have been exceeded.)
Capital	The total cost (part of professional services falls within this) for all capital projects, which includes the upfront down payment as well the costs of repaying	Capital projects are the biggest discretionary cost driver over time for the City , inclusive of professional services fees as well as ultimately becoming the primary contributor to debt service. Facilities are one of the most expensive elements of this.
Debt Service	Existing debt service payments based on what's been borrowed	Significantly higher debt service obligations than similar municipalities , debt service is nearly one quarter of the overall operating budget. Currently paying for debt service costs in both operating and capital budgets making the true cost not transparent to the public or governing body.
Fixed Costs	Costs that the City has no ultimate discretion over once any relevant policies have been put in place, such as healthcare, and pension contributions or payments to the County or School for their taxes	These costs are relatively inflexible and can change based on various market activities and state policies.

Next steps: Simplified strategies to tackle a deficit

Option 1: Continue to borrow	Option 2: Cut costs and services
<p>This is not best practice for a municipality. Borrowing to pay debt is like taking out a credit card to pay off another credit card.</p> <ul style="list-style-type: none"> - It makes the actual cost of government less transparent - Pushes the problems of rising costs further down the road - Costs taxpayers more (Interest, professional costs) 	<p>Finding ways to cut costs is always a high priority, but</p> <ul style="list-style-type: none"> - The city has systematically underfunded every department for decades - Because so much has already been cut, any major cuts would have significant impacts on services <p>The level of service cut required to fill the current gap would be more than eliminating the entire public works department.</p>
Option 3: Raise taxes	Option 4: Find new revenue
<p>To solve this problem taxes will have to be increased.</p> <p>To solve this problem through taxes alone, the amount that would need to be raised to cover this deficit would be impossibly burdensome on homeowners and businesses (Likely more than \$2,000 per homeowner over the next five years).</p> <p>Making Lambertville unaffordable also could create long-term economic downturn and only further pressure the City Budget.</p>	<p>The most practical way to raise revenue is by adding more rateables (new buildings/development) to the tax base through commercial and residential redevelopment.</p> <p>By law, revenue cannot be raised simply by increasing fees, and revenue goals should not impact Court or other departments.</p> <p>The more people who pay in to the City's budget, the more we can distribute our financial obligations to a wider audience.</p>

Timeline of next steps

January 7th Governing Body Meeting:

- Budget Discussion

February 1st: Community Development Fair:

- Join City officials and staff in learning about, discussing and helping to shape the financial and economic future of our community

January - March:

- Capital project prioritization & other public discussion(s)
- Internal meetings of City's Financial Team