City of Lambertville

2020 Budget Presentations

Discussion, Introduction, Public Hearing & Adoption

Prepared by Business Administrator Alex Torpey

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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:** • **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

Important Information

Before moving forward, it's helpful to have watched or read all of the City's budget presentations from 2019.

All six presentation documents, as well as other budget resources, are available online at lambertvillenj.org/2020Budget.

It's also important to remember that there are many estimates and anticipation in here, which are accurate to the best of our ability, but which may change, especially estimates in regards to the impact of COVID-19. Per average assessed household calculations may differ slightly than what's presented.

Important Information

This budget is being presented in two “steps.”

The First step is the budget as it was intended before COVID-19 impacts.

The second step is the impact and budget adjustments made from COVID-19.

Refresher: Problem statements (From August)

Problem Statements

Focus: City’s Highest Financial Priority

Addressing the existence of a structural deficit in the City’s budget is the highest priority.

Not only does addressing it directly address future tax impacts, but it can be a helpful way to measure whether the core underlying budget issues were properly resolved.

Refresher: What is a structural deficit?

Deficit is when there is less money in a budget than there are expenses.

Structural means it is built in to repeat every year, not just one-time.

This may also be referred to as a structural imbalance.

Refresher: How does a structural deficit exist?

If expenses rise (or revenues go down), without filling in the money to make up the difference.

In Lambertville, the structural deficit exists primarily from many years of capital spending far beyond what the City’s tax base can support.

Focus: City’s Highest Financial Priority

Refresher: Why does our structural deficit matter?

Currently unfunded expenses, such as debt service, must be paid.

Where does the money come from?

Without making major changes now, the burden will fall entirely on the City’s existing taxpayers.

Focus: City’s Highest Financial Priority

What would have happened?

1. **Tax Impact:** If we made no changes, over the next six years the average assessed home would have seen approximately $1,000 in tax increases from debt service alone, closer to $3,000 of tax increases if spending at pre-2019 levels was continued.

2. **Reserve for Debt Service Levels:** The Reserve for Debt Service account will be entirely depleted after the 2021 budget.

3. **Surplus Levels:** If we made no changes, the City’s surplus would:
   a. Fall below best practice minimum threshold ($500,000) in 2021
   b. Will be entirely depleted before 2023 leaving no cash on hand

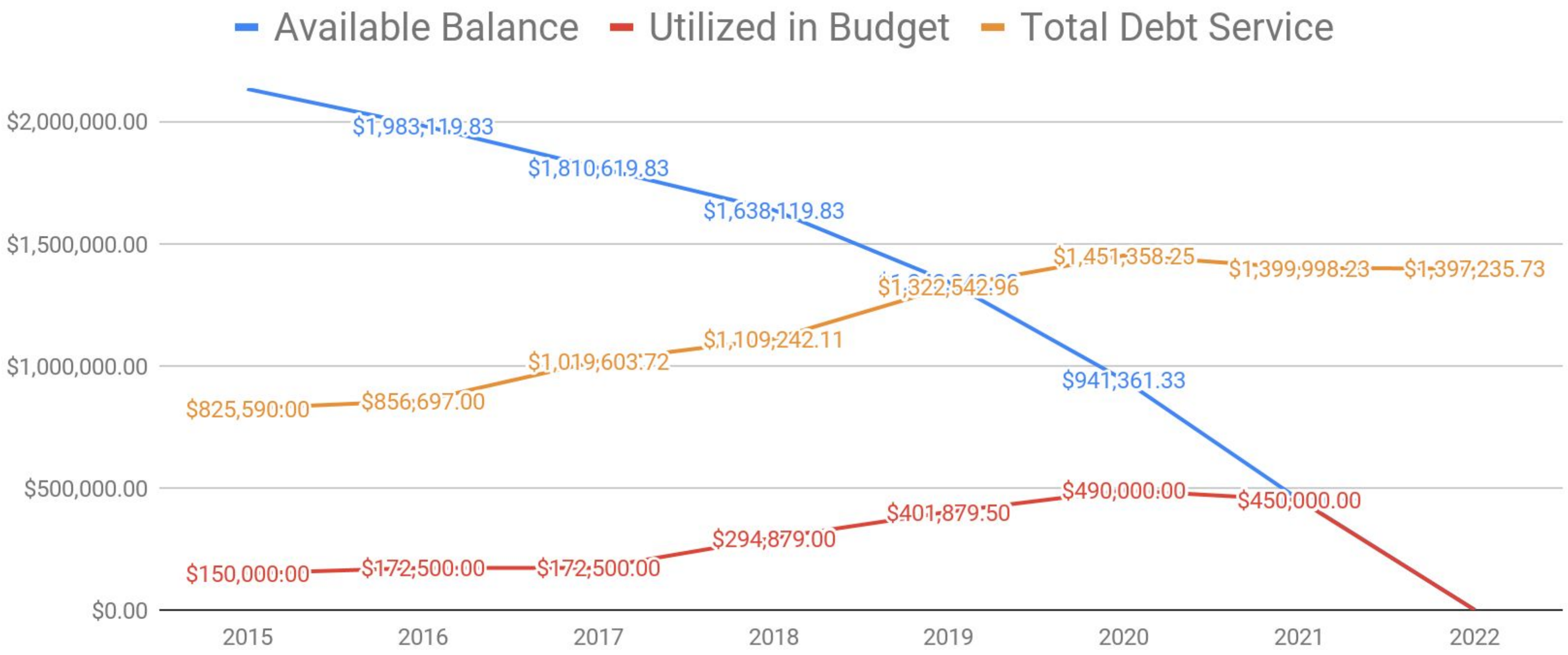
1. Tax Impact

If spending continued at pre-2019 levels, the average assessed home's taxes in 2025 would be approximately $3,000 more than they are today. Approximately $1,000 of that would be from existing debt service.

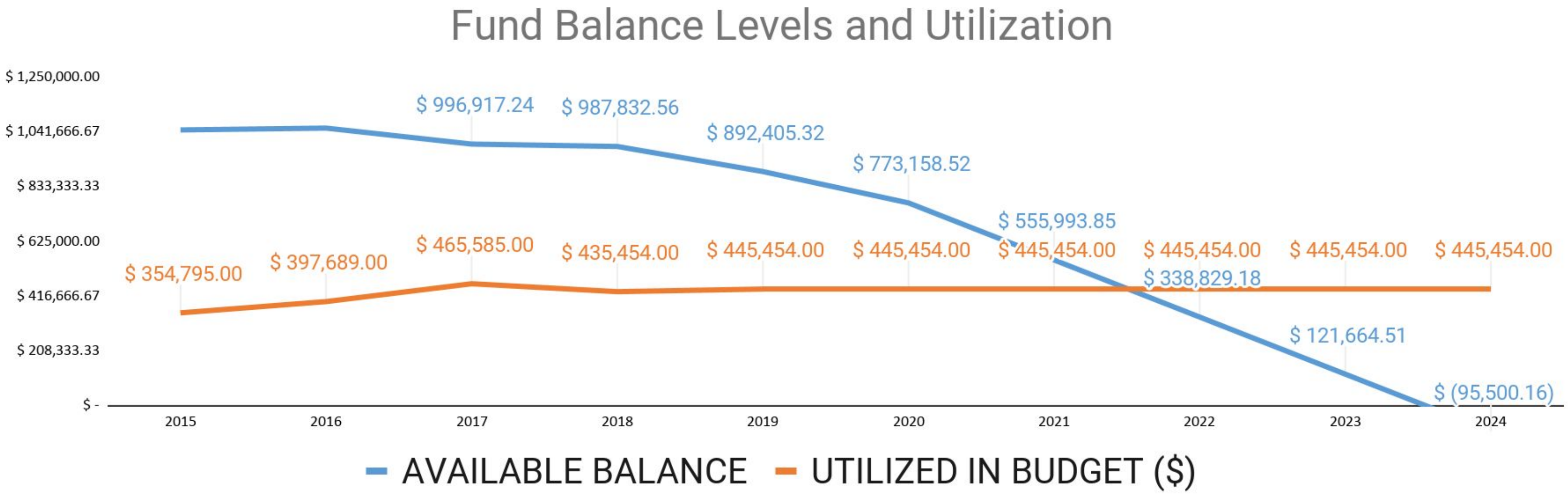
This doesn't account for other increases, such as from the Fire District, School & County.

Focus: City's Highest Financial Priority

2. Depletion of the Reserve for Debt Service



3. Depletion of City’s Surplus



What can be done to fix our structural deficit?

Option 1: Continue to borrow	Option 2: Cut costs and services
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. - 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)	Finding ways to cut costs is always a high priority, but - 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 The level of service cut required to fill the current gap would be impossible to do.
Option 3: Raise taxes	**Option 4: Find new revenue**
To solve this problem taxes will have to be increased. 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 (Up to $3,000 per homeowner over the next six years). Making Lambertville unaffordable also could create long-term economic downturn and only further pressure the City Budget.	The most practical way to raise revenue is by adding more rateables (new buildings/development) to the tax base through commercial and residential redevelopment. By law, revenue cannot be raised simply by increasing fees, and revenue goals should not impact Court or other departments. The more people who pay in to the City's budget, the more we can distribute our financial obligations to a wider audience.

What can be done to fix our structural deficit?

Option 1 of 4: Continue to borrow

This is not best practice for a municipality. Borrowing to pay debt is similar to taking out a credit card to pay off another credit card.

- 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)

This is not a long-term solution that protects taxpayers.

What can be done to fix our structural deficit?

Option 2 of 4: Cut costs and services

Cutting costs is a high priority, but the challenges are:

- The city has historically underfunded most of the City’s budget lines so there is little left to cut.

- Because so little left, any tangible cuts would have significant impacts on service levels. The level of cuts required to fill the current gap would be impossible - well more than the savings from eliminating all full-time City Hall staff, salaries and benefits.

What can be done to fix our structural deficit?

Option 2 of 4: Cut costs and services

Although a deficit this large cannot be resolved with cuts along, there are areas that we have cut and where spending can be reduced to help.

- In 2019, we reduced the amount of new debt authorized by 97% over prior years.
- Professional service spending has been reduced. For example
  - Clinton II came in $320,000 under original budget
  - George Street looks like it will come in more than $200,00 under budget
- Grants
- Shared Services
- Efficiencies in operations (such as LED lighting, VOIP phone system, etc)

Sidenote: Full detail of cost drivers

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.

What can be done to fix our structural deficit?

Option 3 of 4: Increase taxes

To solve this problem taxes will have to be increased. But we cannot solve this with taxes alone. It is an unfair burden on homeowners and businesses. If we tried to make this up with taxes alone, at prior spending levels with no new revenues, your taxes (the average assessed homeowner) in 2025 would have been $3,000 higher than today.

Asking existing taxpayers to shoulder the burden alone would be irresponsible, making Lambertville unaffordable for current residents. It could also create an economic downturn in the City.

What can be done to fix our structural deficit?

Option 4 of 4: Find new Revenue/Rateables

The most practical and impactful way to raise revenue is by adding more rateables (new buildings/development) to the tax base through commercial and residential redevelopment.

By law, revenue cannot be raised simply by increasing fees, and revenue goals should not impact Court or other revenue-based departments.

The more new people who pay in to the City's budget, the more we can distribute our financial obligations to a wider audience.

What can be done to fix a structural deficit?

Option 4 of 4: Find new Revenue/Rateables

The City raises money from both Tax Revenue, and Non-Tax Revenue. But unlike many similar towns, Lambertville is reliant upon non-tax revenue. Only 47% of the City's budget is from tax revenue. The rest comes from fines/fees and other sources that fluctuate on an annual basis.

Frenchtown	64%		Hopewell	69%
Milford	57%		Flemington	76%
Red Bank	62%		West Amwell	44%

What can be done to fix a structural deficit?

Option 4 of 4: Find new Revenue/Rateables

Every new dollar paid into to City, whether as a tax payment or a Payment In Lieu Of Taxes (PILOT) (or any other revenue), offsets a dollar needed from the City's existing taxpayers.

By selling public property for redevelopment, we create 1) One-time revenue from the sale of public property, and 2) Annual revenue from taxes or a PILOT. Lambertville has three PILOT properties currently.

What are those Budget Goals?

1. Stop prior trends that were depleting the City's reserves, and ensure the City's surplus stays as much above $500,000 as possible
2. Limit new capital spending to only critical items
3. Make decisions in 2020 as part of newly created overall strategic and capital plan that takes into account the future repercussions of current choices.
4. Minimize and stabilize, but not eliminate, the tax impact from prior borrowing and debt service
5. Anticipate future rateables and more cost-effective facility maintenance
6. Anticipate increases to operating for every future year to begin raising staff salaries and providing full health benefits; Improving trash/recycling pickup; improving City facilities and public space; providing more support for the business community; increasing arts and culture support; and initiating more local shared services.

Where does that leave us for 2020?

Going into 2020, the City's budget faced a deficit (or imbalance) of almost $600,000.

This would have meant approximately a $300 per homeowner tax increase this year as a starting point, before any new programs or new capital spending (Another $100 - $150 per household), or, now, the financial impact of COVID-19.

What strategies were used to help?

1. Creating the Business Administrator position to manage the finance and administration of the City, design a new budget process, provide day-to-day financial oversight, and layout a multi-year budget plan.

2. Creation of the City's first comprehensive strategic plan for the multi-year responsible usage of Reserve for Debt Service and Surplus

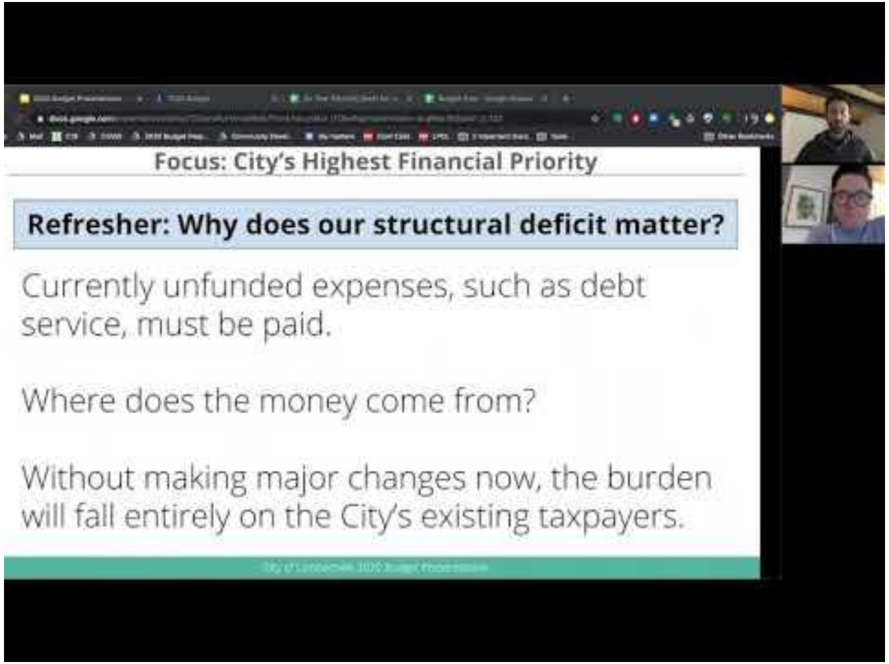
3. Cutting new debt authorized in 2019 by 97%, as well as reducing professional services spending

4. Finding new revenue, such as through grants and new shared service opportunities

5. Re-organizing and re-allocating funds across dozens of operating and capital accounts to create a more transparent budget that includes all anticipated charges in the upcoming year

6. Plans were proposed to create new rateables and return public property to the tax rolls, as well as produce one-time revenue from property/facility sales before the critical 2022 budget cycle.

How did we get to our numbers?



You can also find the spreadsheet at lambertvillenj.org/2020Budget

Focus: City's Highest Financial Priority

Impact of options on taxes

	Prior spending level *& no police site redev*	Scenario 1 *Full Facility Rehab*	Scenario 2 *Bare Bones Rehab*	Scenario 3 *Consolidated Facility*	Scenario 3b *Reduced Cost Consolidated Facility*
2020	$324	$141	$141	$141	$141
2021	$303	$64	-$21	-$854	-$952
2022	$598	$496	$470	$490	$460
2023	$659	$487	$436	$499	$441
2024	$672	$488	$407	$521	$428
2025	$525	$404	$293	$458	$332
Total	**$3,080**	***$2,080**	***$1,726**	**$1,256**	**$850**

This is the year-to-year increase per average household. Please note that the numbers would not necessarily fluctuate, these represent the "raw" numbers, but that measures would be taken to stabilize changes year over year.

*does not include the cost of a permanent new home for the police department (~ $250,000 - $2,500,000)

Financial Impact of COVID-19

Why is Lambertville so financially vulnerable?

1. Too much revenue comes from non-tax sources, which is inherently unreliable
2. Too much of that non-tax revenue (about 50%) is especially variable. This includes:
   a. Court revenue, parking meters, Construction, and Fire fees
3. The City’s surplus has been depleting for most of the last decade and is already dangerously low
4. 24% of the operating budget is for one fixed cost - debt service

Financial Impact of COVID-19

1. Massive revenue shortfall
2. Slight reduction in anticipated collection rate for property tax payments
3. Some new expenses
4. Use of staff time and overtime

Financial Impact of COVID-19

1. **Massive revenue shortfall**

As we indicated in previous budget presentations in 2019, the City's historical reliance on non-tax revenue is extremely risky financially.

The shortfall in anticipated revenue in 2020 is made even worse because of this. This includes major shortfalls in revenue from parking meters, the municipal court, and construction, primarily. For example meters, which were anticipated at $375,000, are down 90% currently.

On top of that, municipalities that are tourism focused are typically being hit the hardest finance-wise from COVID-19.

Financial Impact of COVID-19

2. Slight reduction in anticipated tax collection rate

We expect, consistent with various state guidance and predictions, that the collection rate, due to the financial hardship caused for many residential and commercial taxpayers, a small downtick in the collection of taxes.

Every 1% decrease in anticipated property tax collection requires approximately $180,000 of additional money in the Reserve for Uncollected Taxes (RUT).

Financial Impact of COVID-19

3. Some new expenses

Although strict cost control measures are already in place because there isn’t the cash on hand to support significant new spending, there are a number of new expenses the City has incurred because of COVID-19.

This includes, for example, the Zoom meeting platform and other communications infrastructure, cleaning/disinfecting services for City buildings, and PPE supplies.

Financial Impact of COVID-19

4. Usage of Staff Time and Overtime

Significant staff time has been forced to be allocated towards various aspects of the City's COVID-19 response. This reduces staff time spent on other areas operations, and also increases some costs by having to delegate some work to professionals that bill by the hour, rather than to those who are on salary. This happens in part because of how bare bones the City staff is and how much the City has historically relied on professionals for general work, even under normal circumstances.

This also includes overtime as well as any payments to staff who may not be able to work, but who are covered for various benefits.

Financial Impact of COVID-19

How much are we talking about?

Although it’s impossible to predict with total accuracy at this stage the total financial impact, we have estimates.

The state has provided very little guidance to municipalities on this front, and we must do our best to estimate the shortfall conservatively, such that we don’t underestimate the negative impact and create more problems down the road.

Financial Impact of COVID-19

How much are we talking about?

Revenue shortfall estimates for 2020	
Court	$58,130
Parking Meters	$209,565
UCC	$203,457
Fees/Permits	$15,688
Fire Prevention	$0
Hotel/Motel Fees	$61,230
Total	**$401,068**
Per average assessed home	**$196.53**

Expenses shortfall estimates for 2020	
Communications/Meetings	$5,050
Cleaning services	$4,350
Supplies/PPE/Cleaning Equip	$5,000
Overtime	$16,000
Other	$4,500
Total	**$34,900**
Per average assessed home	**$17**

The 2020 budget, and new budget process itself, is designed with the express purpose of tackling the City's significant financial challenges to reduce short and long term tax impact.

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

Key Takeaway Going into the 2020 Budget

If we don't implement new goals for the City's budget, including cutting spending and anticipating new future rateables, the City's taxpayers will see major tax increases over the next six years, up to $3,000 if we continued at prior spending levels.

The City would also totally deplete its surplus and reserves, which will result in a credit downgrade, higher cost of future borrowing, and extreme financial risk to future taxpayers.

What does the 2020 budget include?

X	Authorizing new debt to pay existing debt service
✓	Operating and capital cost-cutting measures
✓	Starts to reverse trend of depleting surplus
✓	Spreads Reserve for Debt Service funds to 2022, instead of prior estimate of 2021

✓	Full staff health benefits (RX & Dental) and key small raises
✓	Most critical capital spending
X	High, medium, and low priority capital spending
✓	All annual anticipated operating expenses (New)
✓	Assumptions for planned future rateable & revenue increases

Overview of 2020 Budget

Pre-COVID 2020 Budget Overview

Increase in amount to be raised by taxes over 2019		$ 286,351.07
Tax Impact per average homeowner for 2020	Total debt service obligation	$711
	Total "unfunded" debt service obligation	$255
	Minus Contribution from RDS	($196)
	Net obligation for debt service	$59
	Outside of debt service	$77.66
	Total prior to COVID-19	**$136.66**

Post-COVID 2020 Budget Overview

Tax Impact per average homeowner	Pre COVID amount	$136.66
	COVID revenue shortfall	$196.53
	COVID appropriation increase	$17
	Total COVID-19 Budget Impact	$213
	New 2020 Post-COVID Impact	**$349.66**

There are several options for how the City raises this additional money

Financial Impact of COVID-19

What is the best option?

As discussed in the April 23rd City Council Meeting, there is no "best" option.

A number of strategies previously covered have been used to minimize the impact as much as possible.

Although advocacy efforts for state and federal assistance are ongoing, taxpayers have to make up the difference either this year, or next year, or split both years.

Financial Impact of COVID-19

What are the tax impacts of the available options?

Pre-COVID	Initial Proposal
2020 tax increase	$136.66
2021 tax increase	$100 (est)

Post-COVID	All in 2020	All in 2021	Split 2020/2021
2020 tax increase	$349.66	$136.66	$243.16
2021 tax increase	$100 (est)	$313 (est)	$206.50 (est)