

# City of Lambertville

## 2022 Projected Budget Deficits and Planning Analysis

December 8, 2021

The following is submitted in response to a request of the Mayor and Council to develop a preliminary analysis and projection of 2022 budget deficits resulting from the depletion of reserves, recovery costs from Ida and the continued COVID-19 revenue recovery and Cashflows Analysis for the sale of the police site. These estimates are supported by 2021 budget documents, reports from the City of Lambertville's (City) Financial Advisors and estimates that will be confirmed after the close out of the 2021 financial year. At that time, additional analysis and projections will be required. This document also contains responses to questions and comments from the public and other professionals received through December 8, 2021

### **ABSTRACT - 2022 Proposed Tax Increase (Excluding 2021 Shortfalls)**

An analysis of previous years' budget deficits up to 2020 (\$357,189.74) plus a conservative estimate of the down payment (\$389,558.75) required to borrow \$7,791,175 in 2022 for Ida recovery shows that the City of Lambertville will have approximately \$746,748.49 in new expenses over and above the 2021 expenses (appropriations). This will be applied as an increase in the levy requiring an annual increase of \$366.25 in the municipal portion of the property tax bill to the average home valued at \$393,781.07 in 2022.

This excludes any shortfalls resulting in 2021 that will need to be additionally raised in 2022. All shortfalls will need to be addressed and rectified prior to introducing the 2022 budget.

Based on 2021 valuations and in terms of the average home value, \$746,748.49 equals 9.3 tax points x \$39.04 (impact of a tax point) = \$366.25 to the average household over the previous year.

In comparison with the 2021 budget, the City raised the tax levy by \$145,294 or the equivalent of 1.81 tax points.

### **Calculation**

Using 2021 valuations and the impact of a tax point on an average home (\$393,781.07), \$746,748.49 in projected deficits divided by the value of one 2021 tax point (\$80,292.40) = 9.30 tax points to be raised in 2022 or \$366.25 to the average home owner.

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## 2022 Budget Planning

The funding of City operations is still over subsidized by the use of reserves and each year the City should strive to improve its financial position through tax and non-tax revenue to meet its expenses and build reserves.

A preliminary pass at the 2022 Budget planning analysis has identified previously known and persistent budget deficits and newly identified budget deficits totaling \$746,748.49 to be raised in addition in 2022. This does not include any under-collections of revenues or over-spent appropriations in 2021. And the City also has yet to have a full grasp of the total loss of property tax revenue from Ida impacted properties coming off the tax rolls reducing contributions/payers to the total Levy in 2022.

The deficits will need to be addressed in the 2022 budget process and reserve planning starting now and a final determination of how to handle them in time for the 2022 budget introduction, or no later than the Spring of 2022. At that time, the State will require an accounting of all assured revenue based on anticipating the same amount of revenue (no more) from 2021 actuals or any cash-in-hand received prior to introduction and after the close out of 2021. The State will not permit the City to use new revenue that is not assured in the 2022 Budget and any new revenue that comes in after the adoption will be used for future budgets but is not going to relieve the City of the 2022 Budget deficit issues.

The table below provides an illustration of the identified financial deficits projected in 2022.

### 2022 Budget Planning - Deficits

Surplus Anticipated	(\$107,189.74)
Reserve for Payment of Debt Service	(\$200,000.00)
3 Year Average (Unrecovered)	(\$ 50,000.00)
<u>Ida Borrowing Down Payment</u>	<u>(\$389,558.75)</u>
TOTAL ANTICIPATED DEFICIT	(\$746,748.49)

### Deficit Explanations

- Surplus Anticipated (\$107,189.74) – Generally surplus is generated through previous years fund balance reserved year over year. In previous years, the City would anticipate \$400,000+ into its current year budget. In 2021, there was only \$292,810.26 in surplus available to the City and the City was compelled to take the full amount to meet the 2021 budget demands. It is likely that in 2022, due to expenses being cut so deep in 2021 and the loss of revenue since the COVID-19 lockdown, that there will be less surplus available for 2022. This creates a minimum of a \$107,189.74 deficit in 2022.

- Reserve for Payment of Debt Service (\$200,000) – This reserve has been used in previous years to fill budget gaps by transferring approximately \$400,000 from the reserve to the current fund. This fund is where premium payments obtained from borrowing is reserved and is intended to protect the tax payer from rate increases as a result of borrowing. This fund has not been replenished at nearly the rate in which it is depleted and in 2022, there is approximately \$200,000 available to use before the reserve is completely depleted. This creates a minimum of an approximate \$200,000 deficit in 2022 as the full \$400,000 is not available to take similar to 2021 actions.
- 3 Year Average (Unrecovered) (\$50,000)– Prior to the COVID-19 lockdown, municipal budgets could only anticipate the same amount of revenue in non-tax categories as was realized in the previous year. As a result of the COVID-19 lockdown, the NJ Legislature permitted municipalities to relax this rule and use a three-year average for the 2021 revenue projections for COVID-19 impacted lines. The City used this method in order to project anticipated revenues of \$50,000 over the previous year in various categories for 2021. If the revenue has not recovered in 2021 for these categories, there will be a \$50,000 deficit in 2022’s budget.
- Tropical Storm Ida Repairs and Restoration Down Payment (\$389,558.75)-The spending demands as a result of Tropical Storm Ida (Ida) have strained an already strained budget. Costs relating to storm recovery have already crested \$7,500,000. While it is expected that the City will be reimbursed for a portion of that cost up to 75% in 2022, the City will first need to borrow the money to meet the recovery expenses which will require a 5% reserve in the 2022 budget equally to no less than \$389,558.75. The table below is the estimated costs to-date.

<b>Tropical Storm Ida Repairs and Restoration - ESTIMATED</b>	
Engineer Construction Estimates	\$6,632,175
Non-Congregate Sheltering Costs	\$100,000
Damage to Historic Barns	\$250,000
Justice Center Repairs	\$200,000
Quarry St. Retaining Wall Repair	\$159,000
Emergency Protective Measures	\$200,000
Waterways Debris Removal	\$250,000
	\$7,791,175

\*As of December 8, 2021

Raising taxes within the 2% CAP, even if there is an available CAP bank, will not bring nearly enough money to cover these deficits. The City will need to take immediate steps to bring in

new assured revenues in the next 6 months or face unprecedented problems with limited and difficult solutions.

### **2021 Budget Planning Process**

The 2021 budget process initially endeavored to make spending cuts in an effort to right size the government following the pandemic lock down and preserve some reserves. These cuts left money in reserves for future years. However, in the final steps of assembling the 2021 budget, it was determined that the City did not have enough of a CAP bank and further cuts totaling to approximately \$275,000 less than 2020 in Salary and Wages and Other Expenses were made leaving no room for unplanned expenses. Debt payment still continues to be the largest singular factor straining the City's financial health.

Faced with a depleted CAP bank and revenues reduced due to the COVID-19 lock down, the City had to reach into certain reserves that are available year-over-year in order to meet its current fund demands. By doing so, these reserves have less to give in the 2022 budget planning and due to the extensive previous year spending cuts, they will replenish slower than normal.

### **2019 - 2021 Tax Levy Comparison**

The 2021 Tax Levy of \$3,275,524.27 had an increase of \$145,294.24 or 4.64% from 2020. This was the lowest levy increase over three budget years (19-21). 2020 had a 9.95% increase over the previous year and the levy increase of 2019 was 8.78% over the previous year. The City's 2021 budget was in need of a similar 8-9% increase in 2021 but due to limitations in the CAP bank, the maximum permissible increase without a public referendum was the final adopted 4.64%.

## **Selling the Police Site to Kalian Management and Leasing Lambertville Canal Properties, LLC.**

The City is contemplating selling the Police site to Kalian Management for the sales price of \$1,000,000. After selling the property, the Police Department would rent space from Lambertville Canal Properties, LLC (Fedway).

The table labeled, *“Cashflows Analysis-Sell Police Site and Lease Space, June 2022 – May 2027,”* included with this analysis illustrates how the \$1,000,000 from the sale would be applied to the move and re-establish the Police Department.

**Cashflows Analysis**  
*Sell Police Site and Lease Space*  
*June 2022 – May 2027*

LEASE YEAR	Kalian Purchase	ANNUAL TAX/PILOT POLICE SITE	FEDWAY LEASE	CAM	Lease-holder Improvements	LOST TAXES FEDWAY	BALANCE
<b>6/1/2022 - \$9 per Sq Ft</b>	\$1,000,000	\$11,666.67	(\$49,166.25)	(\$11,799.90)	(\$115,000.00)	(\$21,583.33)	\$814,117.18
<b>6/1/2023 - \$9 per Sq Ft</b>	\$0.00	\$20,000.00	(\$84,285.00)	(\$20,228.40)	(\$0.00)	(\$37,000.00)	\$692,603.78
<b>6/1/2024 - \$9 per Sq Ft</b>	\$0.00	\$55,369.00	(\$84,285.00)	(\$20,228.40)	(\$0.00)	(\$37,000.00)	\$606,459.38
<b>6/1/2025 - \$10 per Sq Ft</b>	\$0.00	\$85,000.00	(\$89,747.94)	(\$20,228.40)	(\$0.00)	(\$37,000.00)	\$544,483.04
<b>6/1/2026 - \$11 per Sq Ft</b>	\$0.00	\$85,000.00	(\$99,112.91)	(\$20,228.40)	(\$0.00)	(\$37,000.00)	\$473,141.73
<b>5/31/2027 - \$11 per Sq Ft</b>	\$0.00	\$85,000.00	(\$42,922.20)	(\$8,428.50)	(\$0.00)	(\$15,416.67)	\$491,374.37
<b>TOTALS</b>	\$1,000,000.00	\$342,035.67	(\$449,519.30)	(\$101,142.00)	(\$115,000.00)	(\$185,000.00)	\$491,374.37

\*12/8/21 Adjusted for taxable value of land prior to PILOT

**Table Narrative**

The Cashflows Analysis chart illustrates how the money paid from the purchase of the police site, \$1,000,000, will fund the moving and leasing of the police department for the five years the space is leased. The chart is read in rows from left to right and the balance carried downward. After the completion of the five-year lease, there will be a projected balance of \$491,374.37 cash remaining from the sale of the police site.

## Table Explanations

The following provides information on the table headers.

- Lease Year – The five-year lease will likely not begin until June, 2022 and will run through May of 2027. As the lease year is not synchronized to the calendar year, the table displays the lease years and the budget years. The table spans six calendars even though it is a five-year analysis due to the lease payments commencing mid-year in 2022 and running through mid-year in 2027. There are scheduled increases from \$9 in year one through three, \$10 in year four and \$11 per square foot in year five.
- Kalian Purchase (revenue) – The \$1,000,000 paid to the City for the sale of the police site will impact the 2022 budget year.
- Annual Tax/Pilot Police Site (revenue)– Based on information provided in the Phoenix Advisors Report, the property has an estimated conventional taxable valuable of \$44,971 if the property is developed to a typical standard for its use. It is estimated that sometime in 2024 the conventional tax payments will end and the PILOT payment will begin as the PILOT comes on-line. The PILOT payment is estimated to begin at approximately \$85,000 per year. The amounts used in 2022 and 2023 are estimates of the conventional tax value once sold and not developed.
- Lease (expense) – The amount paid in the budget year for the lease to Lambertville Canal Properties, LLC. (Fedway)
- CAM (expense) – The amount paid in the budget year for the CAM charges to reimburse Lambertville Canal Properties, LLC. for property maintenance expense.
- Improvements (expense) – City/Leaseholder Improvements to move the police department from their old site to the new site and make necessary improvements.
- Lost Taxes (expense) – Lambertville Canal Properties, LLC will no longer be responsible to pay property taxes for the space the City leases. This tax revenue will come off of the City's tax rolls.
- Balance – The Balance is remaining cash from the sale netting income and expenses for each budget year, year-over-year cumulative.

## **Conclusion:**

### *2022 Budget Impacts*

Based on the Cash Flows illustration, the City will be able to use no less than \$491,374.37 from the sale of the Police site as an immediate cash-in-hand solution to the 2022 Budget deficits and project that there will be enough money from the sale to cover all costs for the move and re-establishing of the Police Department over the first five-year lease period. If immediate action is taken to move forward with the sale police site sale in early 2022, there may be enough time to realize the proceeds as assured revenue for the 2022 Budget.

The illustration uses mid-range projected revenue and the likely actual outcome will be more money than projected each year, year-over-year. The use of the proceeds from the sale of the Police site may be applied to the aforementioned 2022 deficits and diminish the impact to the tax payer and help to keep the City away from other drastic measures that will be needed during a budget crisis to close budget deficits and avoid a tax rate shock for the City's residents. It has been expressed that the sale of the police site new-revenue will provide the Governing Body time and money to make sound decisions with the then completed study of all City buildings/facilities in a measured and deliberative approach over five years rather than under financial duress and the few options currently available.

### *Five Year Cost Neutral Impact*

The proposed lease of the Lambertville Canal Properties, LLC. (Fedway) provides for an initial five-year lease period ending in May, 2027 with an option for a second five-year term. This first five-year term provides the City ample time to ramp up to the full 10% PILOT payment of approximately \$85,000 a year while the City investigates next steps for the permanent home for the Police Department and other critical City operations. If the sale money is properly reserved, the cost of the Police in their current location or the leased space will be the same with the exception that there is a high probability that the PILOT will perform well enough to infuse future budgets over the same period with some financial relief and pay for the next home of the Police Station in part with cash-in-hand.

### *Long Term Projected Net Zero Capital Buildout and Budget Assistance*

The \$85,000+ PILOT payment could be used in year 6 as a 5% down payment for a Police Department Capital Project to accommodate a final buildout for the Police Department. The subsequent balance of the first 10 years of the PILOT with payments based on 10% would be more than adequate to cover bond anticipation note costs of interest-only on a loan and the balance of the substantial additional cash generated can relieve budget pressures or fund the new build out with some "pay-as-you-go," money. An example of additional cash generated is for the three years that the project stays in bond anticipation notes, the City can reserve the \$85,000+ a year from the PILOT payments and pay at least an additional \$255,000 down prior to converting the notes to a Bond or expand the project size using cash.



The timing for the sale of the bond anticipation notes into a bond for said Capital Project could coincide with the increased PILOT payment from year 11 forward to the adjusted rate of \$150,000 and greater.