City of Biddeford
Budget Committee
April 22, 2021 5:30 PM Via Zoom
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1. **Roll Call**
2. **Discussion**
    2.1. FY22 City Government & School Department Budget Deliberations
    4-22-2021 Budget Memo-Bennett.docx
3. **Adjourn**

City of Biddeford, Maine

The Office of
City Manager
James A. Bennett
Email: jbennett@biddefordmaine.org

MEMORANDUM

TO:	**Honorable Mayor Casavant** **Honorable City Council**
FROM:	James A. Bennett, City Manager
DATE:	April 21, 2021
RE:	**April 22, 2021 Budget Meeting**

Contained within is the detailed information to assist the Council in your role as the Budget Committee for the upcoming meeting. There is a significant amount of information within the package and therefore is presented in no specific order.

Tentative Meeting Agendas

April 22: Presentation/review of new information and the suggested changes, most of which are contained with this memo/package and Budget Committee deliberations.

April 26: Update from School Department and Budget Committee deliberations.

April 29: Preliminary update from Assessor and Budget Committee deliberations. It is also the target date for the BC to wrap up their deliberations and hand work off formally to City Council.

The 'List'

The following is the list of items staff reviewed in order to assist the Budget Committee. Included with the list is any critical information as well as a status report. The detail/support information is included further within the memo or as an attachment.

A. *Revise revenue forecast for key non-property tax revenues:* a revised forecast recommendation for excise tax and revenue sharing is included.

B. *Updated end of year (FY21) pro forma:* A revised forecast has been included. The original forecast in February expected a $1,800,000 operational surplus in the general fund. This is a net number after deducting the planned use of $550,000 of prior year (FY20) surplus to reduce the property tax rate. There was three recommendations made at that time for the funds. One use was to allocate $957,500 in designated reserves to reduce future spikes in the tax rate. The second, consistent with the last few years, to spend some of the funds in FY21 on capital items not budgeted. That amount was $400,000. The final was to have the balance ($442,500) lapse to unassigned fund balance (historically known as the undesignated fund balance).

   a. *Update the recommendation for designated reserves:* based on the revised forecast and new information, a revised recommendation is included within.

b. *Update additional FY21 capital spending:* based on the revised forecast, a formal recommendation is included with detail recommendations for the uses.

c. *Revised projection to unassigned fund balance:* based on the revised forecast and the formal recommendations in items a and b above, the balance of the funds would automatically become part of the unassigned fund balance. The updated forecast, less the recommendations in items a and b, is included.

C. *General Fund Budget Adjustments:* As is the usual case, included within the package is a set of technical adjustments to the budget because of either mistakes or new information. In addition, there are a couple of new suggestions for consideration.

D. *FY22 Capital Allocation:* Included in the budget was a recommendation to allocate $1,750,000 for capital expenditures. A suggested use of those funds will be provided early next week.

E. *American Recovery Plan Funds (ARP):* The City is schedule to receive 50% of the ARP funds on or before May 11 (estimated to be $5.8 million). The balance will be received next year but no sooner than May 11, 2022. While the City still awaits the actual rules from the US Treasury, a preliminary recommendation is included within the package insomuch that it integral to the adoption of the FY22 budget.

F. *WWTP Fund:* To comply with GASB (Governmental Accounting Standards Board) recommendations, the City finally switched the budget format for WWTP to comply with the reporting standards. For those that were on the Council at that time, you may recall that as an enterprise account, GASB requires the budgeting and reporting format to be closer to private sector than governmental process. To comply, the City needs to deal with accurate depreciation expense calculation for all new and retiring capital purchases.

Included in the package is an explanation of how to handle the WWTP budget this year. The actual numbers are still being worked on and will not be available until later. This is explained in greater detail.

G. *Other Non-General Fund Budgets:* The specific recommendation, including any suggestions changes is also included.

H. *Inclusion of Lease Payment for Public Safety Radios in FY22 Budget:* While the first payment for upgraded radio system is not technically due until the FY23 budget, the draft budget included the first payment. The impact on the FY22 budget was the inclusion of an additional $550,808 or $0.22 on the tax rate.

I. *Valuation Impacts:* A very brief discussion of the expected impacts because of valuation adjustments is included. This is provided to provide some parameters, particularly given the press coverage that is being generated about other community's impacts, most especially the South Portland revaluation.

J. *Tax Rate Summary:* At the conclusion of the memo, an updated tax rate summary is provided at the end, which includes the school department request, and the county budget. It also further than restates the expected tax rate after any adjustment to values is implemented.

Budgets Remaining At Budget Committee Level

The following budgets have been approved at the Budget Committee level:

Budget	FY21 Budget	Dept. Req.	CM Rec	
21101 - Mayor/Council	34,525.00	38,391.00	38,345.00	04.01.21
21102 - City Manager	337,691.00	340,182.84	340,182.84	04.01.21
21103 - City Clerk	295,695.00	301,355.68	299,855.68	04.01.21
21104 - Elections/Voter Registration	17,700.00	25,700.00	25,700.00	04.01.21
21105 - Assessing	211,322.00	215,262.24	215,098.24	04.01.21
21106 - Finance	349,110.00	352,646.25	339,346.25	04.01.21
21108 - Human Resources	153,111.00	166,701.60	166,701.60	04.01.21
21121 - City Hall Building Exp	197,152.00	185,773.58	171,573.58	04.01.21
21122 - Private Schools	25,136.00	25,136.00	25,136.00	04.01.21
21125 - Health & Welfare Expense	251,263.00	314,188.28	314,188.28	04.01.21
21142 - Biddeford Pool Fire Dept.	9,150.00	10,325.00	9,325.00	04.01.21
21144 - Emergency Management	9,876.00	10,000.02	10,000.02	04.01.21
21147 - Police Investigative Services	578,909.00	520,029.06	517,311.60	04.01.21
21148 - Communications	1,407,942.00	1,349,932.56	1,349,932.56	04.01.21
21149 - Animal Control Officer	92,118.00	92,578.83	92,118.48	04.01.21
21150 - Street & Traffic Lights	197,017.00	217,017.00	217,017.00	04.01.21
21161 - PW Admin/Fleet Maint. Exp	1,220,189.00	1,249,704.85	1,232,328.14	04.01.21
21162 - Public Works Roads Maint.	1,679,738.00	1,698,284.68	1,655,131.68	04.01.21
21166 - Cemetery	39,488.00	42,548.70	42,548.70	04.01.21
21167 - Engineering	260,128.00	210,305.31	254,305.31	04.01.21
21168 - GIS Division	72,856.00	73,875.08	72,840.08	04.01.21

The following general fund budgets remain at the Budget Committee level:

Budget	FY21 Budget	Dept. Req.	CM Rec
21107 - Computer Services	165,578.00	302,906.12	191,606.12
21109 - Planning/Economic Dev.	361,421.00	380,346.19	368,346.19
21110 - Code Enforcement/Inspections	397,065.00	441,340.53	410,975.53
21111 - General Administration	2,599,712.00	2,548,009.86	2,493,325.86
21123 - Community Center	211,751.00	219,310.23	218,710.23
21124 - Recreation	531,457.00	577,809.11	576,711.11
21127 - Social Services	88,900.00	90,000.00	90,000.00
21128 - Municipal Services	875,588.00	889,868.00	889,868.00
21131 - Communications	283,380.00	275,101.53	275,101.53
21141 - Fire Dept.	3,499,856.00	4,056,691.66	3,522,630.83
21145 - Hydrant Rental	427,500.00	475,307.27	450,307.27
21146 - Police Dept.	3,974,503.00	4,343,971.91	4,264,261.22
21164 - Solid Waste Management	1,260,198.00	1,287,778.56	1,245,252.56
21165 - Parks Maintenance	506,315.00	545,392.47	532,596.34
21179 - Fringe Benefits	6,086,472.00	6,515,644.35	6,465,519.21
21181 - County Tax	1,323,152.00	1,323,152.49	1,323,152.49
21185 - Debt Service - Principal	2,191,308.00	2,898,557.37	2,898,557.37
21186 - Debt Service - Interest	685,231.00	1,154,614.56	1,154,614.56
21199 - Transfers Out	600,000.00	600,000.00	600,000.00
Temp - Capital Improvement CIP	1,361,047.00	1,750,000.00	1,750,000.00

The following non-general fund budgets remain at the Budget Committee level:

Budget	FY21 Budget	Dept. Req.	CM Rec
31102 - Mooring Fees	46,359.00	57,360.00	57,360.00
31106 - Pool Beaches Ops/Improves	177,966.00	170,643.91	170,643.91
31117 - CDBG Grant Administration	472,537.00	433,347.31	433,347.31
31132 - Airport Operations	241,999.00	252,118.64	252,118.64
31179 - Rte. 111-Mill Redev TIF Projec	295,000.00	1,180,220.00	1,180,220.00
31180 - Rte. 111-Mill Redev MERC Purch	200,000.00	200,000.04	200,000.04
31201 - Recreation General Programs	58,500.00	34,500.00	34,500.00
31202 - Recreation Teen Center	1,200.00	1,200.00	1,200.00
31204 - Recreation Safari Camp	220,639.00	177,628.50	177,628.50
31206 - Rec Cub Care-Vacation Camps	411,672.00	430,697.36	430,697.36
31209 - Recreation Youth Enrichment	11,810.00	11,760.00	11,760.00
31211 - Rec Youth Sports Program	25,900.00	28,605.00	28,605.00
31214 - Rec Adult Sports Program	31,805.00	29,685.00	29,685.00
31220 - Recreation Ross Center	65,612.00	52,697.12	52,697.12
31225 - Rec Outdoor Adventure Program	7,905.00	9,020.00	9,020.00
31228 - Recreation Field Usage	12,836.00	14,436.00	14,436.00
31230 - Rec Community Center Rents	3,000.00	3,000.00	3,000.00
31240 - Airport Reimburseable Improve.	320,000.00	50,000.00	50,000.00
32491 - Ambulance	1,550,000.00	1,671,726.00	1,671,726.00
32551 - MDEA	266,431.00	270,767.04	270,767.04
35102 - Sewer Operations	3,025,926.00	3,145,330.40	2,972,581.87
35103 - Sewer Ind Pretreat Program	69,504.00	40,924.59	40,924.59
35104 - P.W. Wastewater Maintenance	1,002,682.00	1,017,072.92	1,017,072.92
35105 - New Sewer Operations Exp	1,506,082.00	1,531,623.55	1,531,623.55

Revenue Forecast

After considerable discussion and deliberation, I am recommending that the Council increase the revenue forecasts for FY22 for excise tax to $3,750,000 and revenue sharing to $2,750,000. If supported, the recommendation will collectively increase the non-property tax revenues by $600,000 ($250,000 for excise and $350,000 for revenue sharing).

The submitted budget included a forecast of $3,500,000 for excise tax. As of the end of March, the City has collected $2,983,405. The last quarter always has a larger percentage of the overall expected amount. Based on the activity since COVID, I am expecting that we will end the year between $3,573,132 and $3,973,809 with a higher probability that we will be closer or over the higher end than the lower end of the range. FY20 we collected $3,754,561; FY19 we collected $3,545,242. I don't believe we match the FY21 totals in FY22. A projection of $3,750,000 is recommended.

The submitted budget included a forecast of $2,400,000 for revenue sharing. As of the end of March, the City has collected $2,120,019. The last quarter always has a larger percentage of the overall expected amount. Based on the activity since COVID, I am expecting that we will end the year between $2,544,585 and $3,101,588 with a higher probability that we will be closer or over the higher end than the lower end of the range. FY20 we collected $2,134,571 (based on 3% of revenues); FY19 we collected $1,501,821 (based on 2.5% of revenues). I don't believe we match the FY21 totals in FY22.

A projection of $2,750,000 is recommended. As a reminder, beginning in FY20, the state increased the share of revenue sharing to 3.75%, moving steadily back to the statutory requirement of 5%.

Update of FY21 General Fund Operational Surplus

Based on a late January, early February forecast, I was projecting a net $1,800,000 FY21 operational surplus. Components of the forecast included:

• Non-property tax revenues in excess of projection	$1,700,000
• Expenditures authorized but not spent	$ 650,000
Subtotal:	$2,350,000
• Less: use of surplus to reduce tax rate	($ 550,000)
Funds available:	$1,800,000

Based on the most current review, I am now predicting the following results for the end of the FY21 year:

• Non-property tax revenues in excess of projection	$2,400,000
• Expenditures authorized but not spent	$ 650,000
Subtotal:	$3,050,000
• Less: use of surplus to reduce tax rate	($ 550,000)
Funds available:	$2,500,000

I am now recommending the following uses for the above funds. In terms of specific reserve accounts, I am recommending the following changes:

	Original Submittal	Revised Recommendations
Replacement Wages	$15,000	$0
IT Equipment	$200,000	$200,000
Assessing	$50,000	$50,000
Biddeford Pool Study	$30,000	$30,000
Recreation Financial Aid	$35,000	$35,000
Engagement Position	$57,500	$57,500
Earned Pay @ Separation	$125,000	$75,000
Engineering Consulting	$55,000	$55,000
*Senior & Rec Program**	$30,000	$0
*Street Light Replacement**	$125,000	$125,000
SCBA Fire	$150,000	$150,000
*Grant Matches**	$85,000	$85,000
Reserve for Police grant positions	$0	$60,000
Total	$957,500	$922,500

Consistent with the past few years of utilizing some of the excess revenues towards one time capital purchase, I am recommending that the Council authorize the following purchases:

Item	**Cost**	**Impact on FY22 Budget**
Purchase 2 cruisers	$56,820*	None
Purchase all FY21 CIP Vehicles (No lease/purchase)	$680,000	$0 (Not budgeted, otherwise need $103,751 in additional for next seven years)
Engineering (MERC Tower)	$30,000	None
Crosswalk Warning Lights	$100,000	None
Software for Mobile App (citizen focus)	$30,000	None
Additional Sidewalk Work	$150,000	None
Total	**$1,046,820**	

The balance, or $530,680 would lapse to the City's Unassigned Fund Balance.

** already approved and authorized*

General Fund Adjustments

Based on the entire aspects of this memo, please find the following recommendations for changes to the GF budget. The impact numbers represent the net impact to the overall tax commitment. If the Council agrees, the actual individual line items, account numbers and gross numbers will be provided for the formal action.

Item	*Reason*	*Budget*	*Impact on Tax Commitment +/-*
Revenue Sharing	Increase forecast	$2,750,000	($350,000)
Excise Tax	Increase forecast	$3,750,000	($250,000)
Reserve for grant police positions	Available resources	$0	($60,000)
Reduce IPP impact in WWTP budget	Council concern	$63,101	$14,941
Cemetery Stipend	Market Adj	$4,000	$750
Non-union market adjustment	Market Adj	$100,000	$100,000
Climate Task Force	New request	$0	$3,000
CDBG Adjustment	Fed guidelines		$12,633
Verizon Rental	39 Alfred St	$15,870	($2,381)
Parking enforcement (on street)	Return from parking fund	$77,118	$49,118

Additional on street & beach (FT vs PT)	Meet needs	$48,383	$4,383
Parking Enforcement	Handheld SVC	$9,861	$9,861
Reduce PS Radio payment	Use ½ for decrease in tax commitment; ½ to capital	$0	($550,808)
	Increase capital (see above)	$1,975,000	$275,000
Increase contingency	Available funds	$800,000	$300,000
Total Impact on Tax			*($443,503)*

The above changes reduces the submitted budget on the City side of the budget from a $0.42 increase (based on a net tax commitment of $1,024,881) to a $0.23 increase in the tax rate on the City or 1.17%.

FY 22 Capital Allocation

The capital budget recommendation for the revised FY22 capital budget in the amount of $1,975,000 is still being prepared. The Council will receive the recommendation early next week.

American Recovery Plan Funds

There is a lot that remains unknown about the ARP funds at the time of this memo. Based on the published information, the following key assumptions are made in the preparation of the recommendations made within.

1. The City will directly receive approximately $11.7 million dollars; the first allocation (50% of $5.8 million) on or before May 11. The second half of the funds will arrive sometime after May 11, 2022.
2. The City has up to December 31, 2024 to use the funds.
3. The funds may not be used to reduce the tax burden in any year that the funds are used. The definition of tax burden remains uncertain.
4. The City may use the funds to recover from any loss revenues directly related to COVID impacts. It may also use the funds to cover any direct costs associated with COVID impacts. These funds, once identified and allocated, become unencumbered by the balance of the rules.
5. There appears to be clear ability to use the funds for sewer expenditures. In the same light, uses for water and broadband/connectivity issues also seem certain.
6. There is vague language regarding the ability to use the funds for negative economic impacts that include the ability to make direct assistance to others.

The current suggested uses of some of the funds include the following:

a. Identify the current shortfall in WWTP user fees for the FY20 and FY21. Use those funds to make the WWTP fund whole for the current year and to continue operations at the plant for FY21 without increasing any rate, reducing service levels or capital investment. The combined total is still being calculated. The current estimate is $1.5 million. Depending on how quickly the

WWTP flows return, some funds may be needed in FY23. On the other hand, if the flows return in FY22, the actual ARP funds used would be reduced because of the rules.

b. Identify all lost revenues and expenses (beyond WWTP) in order to allow this funds to become available without the otherwise ARP restrictions. Like the WWTP impacts, staff is still calculating those funds but believes that the total may approach $1,000,000 for the first allocation.
c. Use $1.5 million of the funds instead of borrowing the previously approved revenue bond. This will eliminate approximately $175,000 of debt payments annually in the WWTP fund for the next 10 years that can be otherwise used. In the redrafted FY22 WWTP budget, those funds are being targeted for additional capital.
d. Use approximately $450,000 to replace the Vactor truck for sewer operations.
e. The balance of the year one funds ($2.3 million) remain available for further deliberation by the Council after the rules are issued. Further, the expectation is those funds will not have a direct impact on either the general fund or the WWTP fund.
f. Strongly consider using up to $5 million of the year 2 ARP funds for CSO work in order to reduce the approved borrowing of $10 million. If supported, it would reduce the FY22 new debt payment (interest only) by $138,333 or another $0.05. In FY23, the new projected increase in debt payments of $1,355,000 would be reduced by $387,143 or $0.16 on the tax rate. The City should then issue the additional $5 million in authorized debt in 3 to 4 years. This recommendation also includes factoring in the IRS regulations limiting how long tax exempt funds can remain unspent from the time of borrowing.
g. Combined, there would be a balance of $3.1 million of ARP funds (over the two years) for further Council deliberations.

Waste Water Treatment Plant (WWTP) Fund

The specific details of the WWTP budget is still in process for the reasons outlined on page 2 of this memo. All of the specific capital items included in the proposed ARP funding (and the additional $175,000 operational capital) requires a depreciation schedule to be created. Further, any current capital assets being taking out of service needs to be reviewed to determine the impact on depreciation as well.

In addition, staff is still in the process of determining exactly how much of the lost revenues should be attributed to COVID impacts.

The overall plan is to submit a total WWTP budget with expenses that are equal to the pre-covid flows at the current fee structure. Any reduction in revenues based on this budget would be covered by the ARP funds as noted above. No operational growth will be included within the expense budget.

Finally, as noted earlier, staff has reviewed the IPP program and is recommending a reduction in the charges to the IPP users to reflect actual hours of staff based on the 2020 study. It does increase the property tax burden by $14,941.

Staff hopes to have the details out to you be the end of next week.

Inclusion of the Lease Payment for Public Safety Radios

The original inclusion of the lease payments in the FY22 budget was more intended to serve as a notice to the community and the Council of the large increase in the FY23 budget because of the new borrowing. The new payments between the $17.5 million borrowing and the lease purchase of the radios would impact the tax rate in FY23 by $0.77 ($1,905,808).

The recently State approved modification to the downtown TIF does allow the City to offset the radio payments by $1.5 million from that account.

In the general fund adjustment section, you will note that I have recommended removing a direct appropriation for this payment. Instead, I have recommended that we use half that funding ($275,000) for additional capital in FY22. The balance ($275,808) is recommended to reduce the property tax commitment. This recommendation is made with one eye on the FY23 budget.

Looking forward to FY23, if the Council decides to reduce the capital allocation back to the $1,750,00 level (as originally proposed), only $83,025 of new funding would be needed to cover the lease payments (because of the TIF transfer of $192,782).

Briefing on Expected Impacts on Revaluation

The Assessor has provided an initial estimate of the impacts of the adjustments that should be made in the community. Like the previous adjustments, each segment of properties that are out of balance with the rest of the community would be adjusted. It has been implied that the previous adjustments over the last five years have been targeted to a single class of properties without any consideration of the balance of properties. That simply is untrue.

To achieve the goal of reaching a declared ratio of 100% for FY22 nearly every property class would be adjusted. As a reminder, being able to reach that goal allows the City to receive 100% of all funds from the state for all property tax reimbursements (which are used to reduce the total taxes raised). It allows the City to charge the full value to all utilities within the community (currently valued at $45.7 million). Finally, also allows each individual taxpayer to receive the full benefit of state exemptions (veterans, homestead, etc.).

With nearly all classes of property seeing adjustments to achieve equity, there is very limited shifting of tax burden from one class of properties to other property classes. For illustration purposes only, the current run shows a 0.11% change (33.4% of total tax burden to 33.51%) in total tax burden on single-family homes (in the aggregate) for non-water influenced properties. It is important to restate, this the sum of all of the changes. Within the categories, individual properties (and sub categories) will be adjusted at different rates.

The strong sales data for the mixed use in the downtown area and multi-family units within the community is a key reason that the City will not see the dramatic shifts in tax burden that other communities are reporting/predicting. These classes of property will see the greatest increase in tax burden.

A complete package will be provided to the Council prior to your April 29 meeting. At that meeting, Nick will provide more details for the community and the Council.

Two final notes should be mentioned at this point. First, the conclusion reached by the Assessor is done based on the actual sales in the community. Any qualified Assessor cannot predict the market. They simply reflected for the so purpose of equalizing the values. Second, while it might be lost in the bigger picture, it should be noted that the stated strategy to encourage increase growth/valuation in the downtown in order to keep up with the increasing values in single-family homes has been successful. In comparison to the impacts of communities close by, the tax shift in Biddeford will definitely be less.

Tax Rate Summary

As originally presented, the proposed budgets affected the current tax rate (before any valuations adjustments) as shown below:

	FY21	FY22	CHANGE
MUNCIPAL	$9.08	$9.61	$0.53
SCHOOL	$9.61	$9.79	$0.19
COUNTY	$0.55	$0.55	$0.00
TIF/OVERLAY	$0.81	$0.77	($0.04)
TOTAL*	$20.05	$20.71	$0.67

* assumes $15,000,000 in new valuation and school increase of $604,440.

As presented, the budget would require a combined 3.32% increase in the tax rate (before valuation change). The City side would be responsible for 2.1% of the increase; 0.9%. For the median home, the increase would require $154.40 more in taxes.

	FY22 SUBMITTED	SUGGESTED ADJUSTMENTS	CHANGE
MUNCIPAL	$9.61	$9.42	($0.18)
SCHOOL	$9.79	$9.79	$0.00
COUNTY	$0.55	$0.55	$0.00
TIF/OVERLAY	$0.77	$0.77	$0.00
TOTAL*	$20.71	$20.53	($0.18)

* assumes $15,000,000 in new valuation and school increase of $604,440.

	FY21	FY22 REVISED	CHANGE
MUNCIPAL	$9.08	$9.42	$0.35
SCHOOL	$9.61	$9.79	$0.19
COUNTY	$0.55	$0.55	$0.00
TIF/OVERLAY	$0.81	$0.77	($0.04)
TOTAL*	$20.05	$20.53	$0.49

* assumes $15,000,000 in new valuation.

If the Council accepts the recommendations, the budget would require a combined 2.42% increase in the tax rate (before valuation change). The City side would be responsible for 1.4% of the increase; 0.9%. For the median home, the increase would require $112.59 more in taxes.

Valuation Adjustment Impact on Tax Rate

Finally, the overall valuation of the City is expected to increase by approximately 8% once the values are adjusted throughout the City. If all the changes were made as outlined in this memo, the proposed tax rate would reduce by the 5.16% or $1.04. The revised tax rate would be $19.01.