LEBANON CITY COUNCIL
MAY 11, 2022 - 5:30 PM
WORK SESSION
COUNCIL CHAMBERS, CITY HALL OR REMOTE VIA VIRTUAL PLATFORM
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1. **Annual Work Session**

   A. Review and Discussion of 2021 Year-End and 2022 1st Quarter Budget Reports

   B. Presentation of 2022-2024 Financial Outlook

   C. Input from City Council: 2023 Budget Process

Meetings are open for in-person and remote attendance. Members of the public that wish to attend remotely may do so by going to LebanonNH.gov/Live where you will find instructions on how to enter the meeting. Members of the public will be able to participate and ask questions through the City's virtual platform or by phone. Please note: Should technical difficulties occur during the meeting that disrupts virtual or phone connection(s), the meeting will continue without remote access capabilities.

CITY OF LEBANON
FINANCE DEPARTMENT

51 North Park Street
Lebanon, NH 03766

Phone: (603) 448-0682
email: Finance@LebanonNH.gov

To: Mayor and City Council

From: Finance

Date: May 11, 2022

Re: Year End 2021 Budget Review

Below are the financials for the budget year ending December 31, 2021. These are unaudited, and subject to change.

Under state budget law, the City is governed by the concept of a "bottom line" budget. That is, while appropriations are allocated and tracked in several functional categories which allows the City to efficiently track and manage its operations, it is the total of the approved budget that dictates the maximum expenditure level for each fiscal year. It follows therefore, that the categories summarized may end a given fiscal year in a deficit position if total fund expenditures do not exceed the City Council's approved "bottom line."

The City's General Fund indicate that approximately $1.5M of the approved FY 2021 budget, will be put back into fund balance. This amount is net of both revenues and expenditures including encumbrances as of 12/31/2021.
As of the last audit, the fund balance of $13.2M has been increased to include the net revenue and expenditures of $1.5M and reduced by council approved expenditures of $950K from fund balance ($250K for the special assessment and $700K for Spencer Street) and the use of fund balance of $1,535K to reduce the tax rate which leaves a net fund balance of $12.2M.

General Fund Revenues

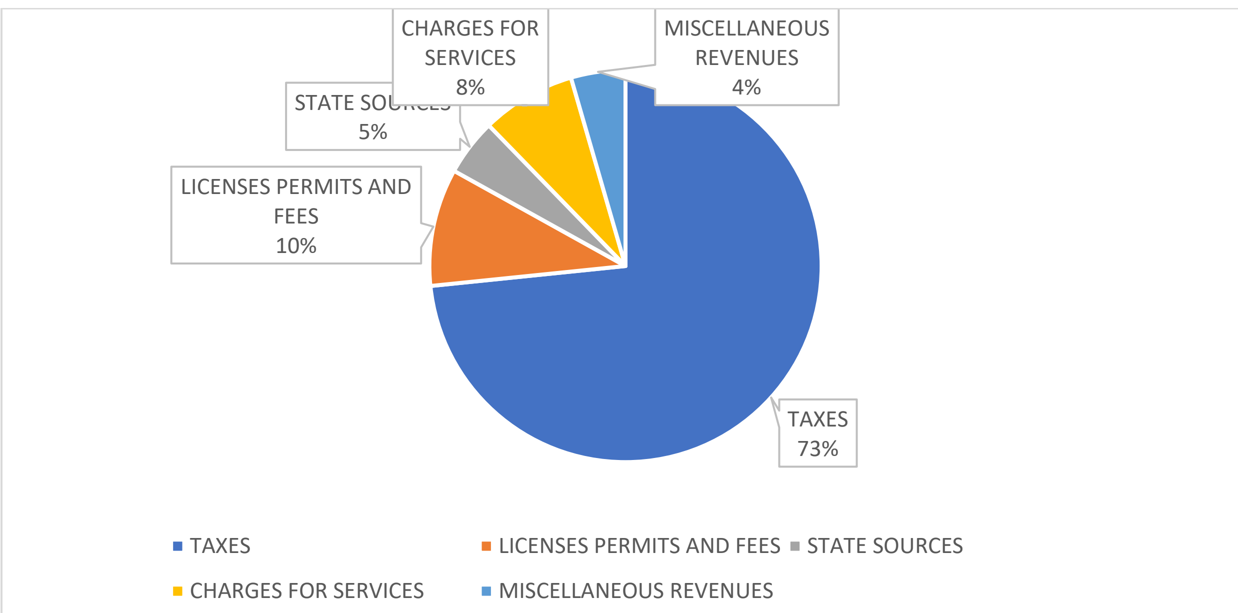
City revenues continue to outpace budgetary estimates despite impacts from the COVID-19 pandemic. Revenues collected exceeded budgeted by $912K.

Highlights of over-budget estimates are:

- Building Permits - $244K
- Ambulance Revenue - $121K
- Motor Vehicle Registrations - $218K

Shortfalls were from recreation programs and interest income.

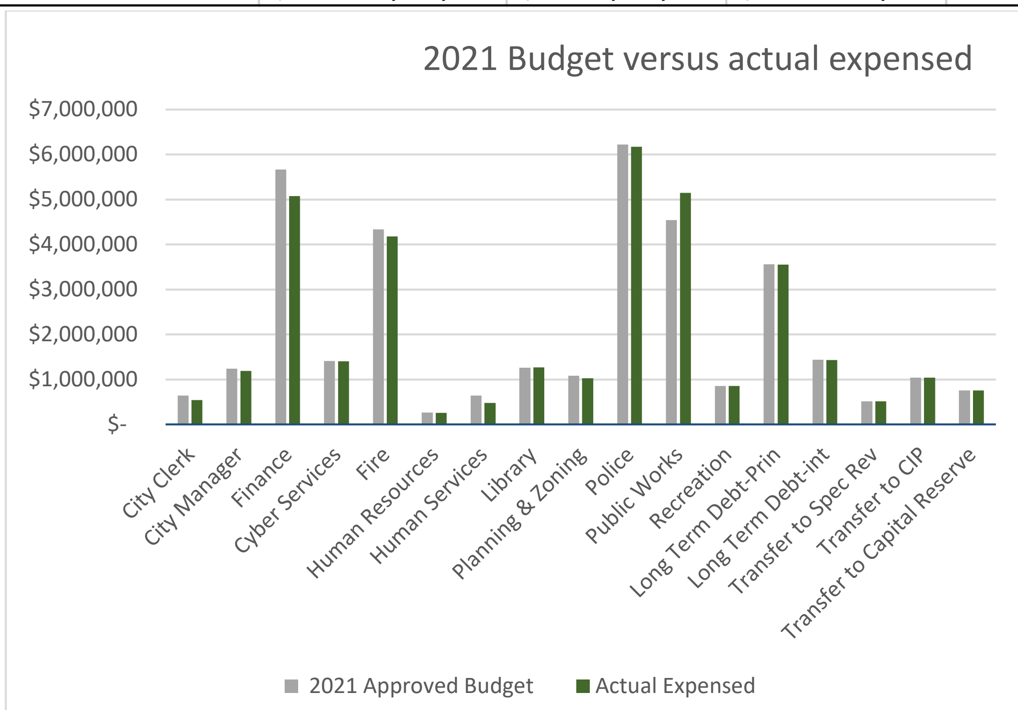
	Budget	Actual	Difference	
TAXES	24,196,652.00	24,224,619.30	(27,967.30)	100.1%
LICENSES PERMITS AND FEES	3,195,430.00	3,698,204.13	(502,774.13)	115.7%
STATE SOURCES	1,536,473.00	1,585,189.79	(48,716.79)	103.2%
CHARGES FOR SERVICES	2,568,070.00	2,709,659.81	(141,589.81)	105.5%
MISCELLANEOUS REVENUES	1,479,675.00	1,671,384.80	(191,709.80)	113.0%
	32,976,300.00	33,889,057.83	(912,757.83)	102.8%



General Fund Expenditures

City expenditures were underspent by $586,582 approximately 1.7% of the budget.

Description	2021 Approved Budget	Actual Expensed	YTD Available Balance	% of Budget Used
City Clerk	$ 642,510	$ 541,631	$ 100,879	84.3%
City Manager	$ 1,241,200	$ 1,188,170	$ 53,030	95.7%
Finance	$ 5,668,130	$ 5,075,857	$ 592,273	89.6%
Cyber Services	$ 1,411,290	$ 1,400,341	$ 10,949	99.2%
Fire	$ 4,334,990	$ 4,181,083	$ 153,907	96.4%
Human Resources	$ 262,270	$ 256,017	$ 6,253	97.6%
Human Services	$ 639,600	$ 474,885	$ 164,715	74.2%
Library	$ 1,259,960	$ 1,266,192	$ (6,232)	100.5%
Planning & Zoning	$ 1,079,720	$ 1,024,919	$ 54,801	94.9%
Police	$ 6,220,120	$ 6,172,771	$ 47,349	99.2%
Public Works	$ 4,540,250	$ 5,147,560	$ (607,310)	113.4%
Recreation	$ 854,990	$ 854,794	$ 196	100.0%
Long Term Debt-Prin	$ 3,558,790	$ 3,550,922	$ 7,868	99.8%
Long Term Debt-int	$ 1,441,500	$ 1,431,928	$ 9,572	99.3%
Transfer to Spec Rev	$ 510,980	$ 512,649	$ (1,669)	100.3%
Transfer to CIP	$ 1,040,000	$ 1,040,000	$ -	100.0%
Transfer to Capital Reserve	$ 755,000	$ 755,000	$ -	100.0%
TOTALS	**$ 35,461,300**	**$ 34,874,718**	**$ 586,582**	**98.3%**



Other Funds –

- Solid Waste Disposal Fund is responsible for the operation and maintenance of the landfill, recycling facilities and hazardous waste processing. Revenues at year end exceeded expenditures by $86K. However, revenues came in less than anticipated (Revenues budgeted $4,487,830). Tipping Fees came in $586K less than budgeted, however coupon sales came in $126K higher as well as recycle sales coming in $110K more than expected. Therefore, expenditures were underspent to stay in line with revenues. Expenditures were budgeted to come in $11K more than revenues (Expenditures budgeted $4,498,830). 2021 unaudited fund balance $2,998,311.

Landfill Fund	
Revenue Received	$ 4,159,531
Expenditures & Encumbrances	$ (4,072,925)
	$ 86,606

- Water Treatment and Distribution Fund is responsible for the provision and distribution of clean and safe drinking water, the planning, maintenance and replacement of water treatment facilities, pump stations, water tanks, and the water distribution system. Revenues exceeded expenditures by $280K. Revenues didn't come in as budgeted due to water user charges by $146K. Revenues were budgeted to exceed expenditures by $406K. (Revenues budgeted $4,130,550, expenditures budgeted $3,724,290). 2021 unaudited fund balance $3,448,418.
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Water Fund	
Revenue Received	$ 3,995,643
Expenditures & Encumbrances	$ (3,714,786)
	$ 280,857

- Sewage Collection and Disposal Fund is responsible for the safe and hygienic collection and treatment of wastewater, and the planning, maintenance and replacement of the wastewater collection system, pump stations and wastewater treatment plant. Revenues exceeded expenditures by $11K. Revenues were budgeted to exceed expenditures by $239K (Revenues budgeted $7,368,570, expenditures budgeted $7,128,990), however sewer charges and the sewer development revenue came in underestimated by $335K, therefore expenditures were underspent to stay in line with revenues. 2021 unaudited fund balance $3,296,463.

Sewer Fund	
Revenue Received	$ 6,999,909
Expenditures & Encumbrances	$ (6,988,661)
	$ 11,248

Municipal Airport Fund is responsible for the operation and maintenance of the Lebanon Municipal Airport. At year end, revenues exceeded the budgeted amount due to the resulting in a surplus of approx. $700. (Revenues budgeted $1,192,790, expenditures budgeted $1,358,250)

Two AIPs in 2021 were used to help meet critical airport needs during the COVID-19 pandemic by providing funds to offset loss of revenue. The grant parameters allowed for a wide range of operating expenses to be covered. Those two grants were AIP63 — Coronavirus Aid, Relief, and Economic Security (CARES) Act, and AIP67 — Airport Coronavirus Response Grant Program (ACRGP). AIP67 continues in 2022 along with a new grant — AIP69, Airport Rescue Plan Act (ARPA). 2021 unaudited fund balance $1,081,817.

Airport Fund	
Revenue Received	$ 1,942,076
Expenditures & Encumbrances	$ (1,243,751)
	$ 698,325

Unassigned Fund Balance

The residual classification for the City's General Fund and includes all amount not contained in other fund balance component classifications and therefore not subject to any constraints. Appropriation from the Unassigned Fund Balance requires approval of the City Council.

The *unaudited* Unassigned General Fund Balance as of December 31, 2021 is $12.2M. This amount could change if the auditors make adjustments or change the reserve for contingencies.

Please don't hesitate to contact us if you have any questions.

CITY OF LEBANON
FINANCE DEPARTMENT

51 North Park Street
Lebanon, NH 03766

Phone: (603) 448-0682
email: Finance@LebanonNH.gov

To: Mayor and City Council

From: Finance

Date: May 11, 2022

Re: 1st Quarter Financial Report (March 31, 2022)

The following report highlights key points for the City's General Fund operating budget, Solid Waste Disposal Fund, Water Treatment and Distribution Fund, Sewage Collection and Disposal Fund and Municipal Airport Fund. Please don't hesitate to contact us if you have any questions.

GENERAL FUND

Expenditures

The following chart summarizes appropriations, expenditures and amounts encumbered as of March 31st (25% of the fiscal year) by department. For FY 2022, 28.9% of appropriations have been expended or encumbered (obligated for future expenditure) during the quarter.

Not all operating costs are absorbed equally over the course of each year. For example, most debt service payments are due in the 3rd or 4th quarter, and support for local non-profit organizations is typically disbursed in the first month of the fiscal year.

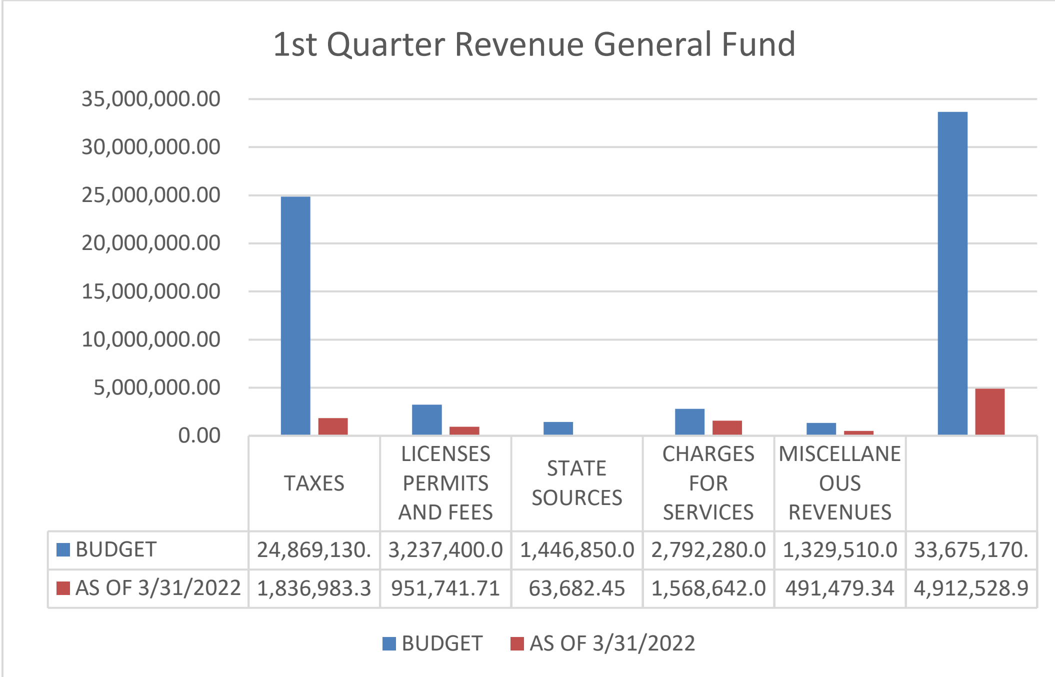
The 28.9% expended and encumbered to date is close to each of the past two fiscal years, which had percentages of 27.2% (2021) and 29.7% (2020), respectively, so it is historically at the level expected.

QUARTLERY REPORT FOR CITY OF LEBANON						
AS OF MARCH 31, 2022						
GENERAL FUND		2022 BUDGET	AS OF 3/31/2022	ENCUMBRANCES	YTD AVAILABLE BALANCE	% OF BUDGET USED
	CITY CLERK	$ 721,630	$ 166,439.31	$ -	$ 555,190.69	23.1%
	CITY MANAGER	$ 1,284,480	$ 260,569.24	$ -	$ 1,023,910.76	20.3%
	CYBER SERVICES	$ 1,705,560	$ 314,514.51	$ 41,792.00	$ 1,349,253.49	20.9%
	FINANCE	$ 5,391,890	$ 1,622,956.35	$ 6,495.00	$ 3,762,438.65	30.2%
	FIRE	$ 4,775,030	$ 1,050,740.20	$ 7,713.34	$ 3,716,576.46	22.2%
	HUMAN RESOURCES	$ 350,060	$ 73,200.84	$ 10,500.00	$ 266,359.16	23.9%
	HUMAN SERVICES	$ 554,900	$ 308,700.85	$ -	$ 246,199.15	55.6%
	LIBRARY	$ 1,383,440	$ 326,203.74	$ 10,434.00	$ 1,046,802.26	24.3%
	PLANNING	$ 1,142,110	$ 245,469.07	$ -	$ 896,640.93	21.5%
	POLICE	$ 6,893,010	$ 1,484,583.67	$ 344,102.43	$ 5,064,323.90	26.5%
	PUBLIC WORKS	$ 4,904,010	$ 936,688.56	$ 84,560.66	$ 3,882,760.78	20.8%
	RECREATION ARTS & PARKS	$ 1,116,720	$ 227,126.20	$ 19,928.00	$ 869,665.80	22.1%
	DEBT SERVICE	$ 4,837,990	$ 1,495,246.71	$ -	$ 3,342,743.29	30.9%
	INTERFUND TRANSFER	$ 1,555,540	$ 1,555,540.00	$ -	$ -	100.0%
	TOTALS	$ 36,616,370	$ 10,067,979.25	$ 525,525.43	$ 26,022,865.32	28.9%

Revenues

The following chart summaries amounts budgeted and collected year-to-date by general revenue category. Revenues collected throughout the course of a given fiscal year total approximately 14.6% of the amount budgeted for FY 2022, which compares to 14.6% (2021) and 15.8% (2020) in the previous two fiscal years. Highlights for the quarter include:

- Tax bills will be going out by June 1st due July 1st.
- Motor vehicle registrations are just below the quarterly benchmark at 23.1% collected.
- Building permits are trending well above the quarterly benchmark at 46.8% collected.
- Ambulance Service revenue is collected just above the quarterly benchmark at 25.4%.



<u>Other Funds –</u>

- Solid Waste Disposal Fund is responsible for the operation and maintenance of the landfill, recycling facilities and hazardous waste processing.

QUARTLERY REPORT FOR CITY OF LEBANON						
AS OF MARCH 31, 2022						
LANDFILL FUND		2022 BUDGET	AS OF 3/31/2022	ENCUMBRANCES	YTD AVAILABLE BALANCE	% OF BUDGET USED
	REVENUE	$ 4,127,230.00	$ 966,879.42		$ 3,160,350.58	23.4%
	EXPENDITURES	$ 4,046,450.00	$ 1,054,719.50	$ 206,601.92	$ 2,785,128.58	31.2%

- Water Treatment and Distribution Fund is responsible for the provision and distribution of clean and safe drinking water, the planning, maintenance and replacement of water treatment facilities, pump stations, water tanks, and the water distribution system.

QUARTLERY REPORT FOR CITY OF LEBANON						
AS OF MARCH 31, 2022						
WATER FUND		2022 BUDGET	AS OF 3/31/2022	ENCUMBRANCES	YTD AVAILABLE BALANCE	% OF BUDGET USED
	REVENUE	4210810	1206883.87		$ 3,003,926.13	28.7%
	EXPENDITURES	$ 4,141,290.00	$ 1,566,238.32	$ 205,067.09	$ 2,369,984.59	42.8%

- Sewage Collection and Disposal Fund is responsible for the safe and hygienic collection and treatment of wastewater, and the planning, maintenance and replacement of the wastewater collection system, pump stations and wastewater treatment plant.

QUARTLERY REPORT FOR CITY OF LEBANON						
AS OF MARCH 31, 2022						
SEWER FUND		2022 BUDGET	AS OF 3/31/2022	ENCUMBRANCES	YTD AVAILABLE BALANCE	% OF BUDGET USED
	REVENUE	$ 7,277,230.00	$ 2,092,646.45		$ 5,184,583.55	28.8%
	EXPENDITURES	$ 7,264,330.00	$ 3,137,429.82	$ 163,340.53	$ 3,963,559.65	45.4%

- Municipal Airport Fund is responsible for the operation and maintenance of the Lebanon Municipal Airport.

QUARTLERY REPORT FOR CITY OF LEBANON						
AS OF MARCH 31, 2022						
AIRPORT FUND		2022 BUDGET	AS OF 3/31/2022	ENCUMBRANCES	YTD AVAILABLE BALANCE	% OF BUDGET USED
	REVENUE	$ 929,040.00	$ 254,324.70		$ 674,715.30	27.4%
	EXPENDITURES	$ 1,479,310.00	$ 487,026.66	$ 26,343.50	$ 965,939.84	34.7%

CITY OF LEBANON

FINANCE DEPARTMENT

51 North Park Street
Lebanon, NH 03766

Phone: (603) 448-0682
email: Finance@LebanonNH.gov

To: Mayor and City Council

From: Finance

Date: May 11, 2022

Re: Financial Outlook

As we pass the third anniversary of the onset of COVID-19, the City continues to navigate the ever-changing landscape and challenges that it presents. We continue to monitor financial trends to ensure that future outcomes will provide the best possible operational results for the City and its Citizens. The FY 2023 budget process began with the update of the Annual Outcomes & Work Plan last week and culminates with a public hearing on the budget on December 21, 2022. The Finance Department has gathered data to provide our projections and financial outlook for fiscal years 2023 through 2025.

Over the next several weeks, key elements that will help shape the City's financial path including completion of the audit of the City's FY 2021 financial statements, and construction of the 2023 Capital Improvement Plan (CIP FY 2023 – FY 2028) scheduled for completion in August, will take place. This planning process helps ensure the smooth continuity of the City's financial operations.

FINANCIAL OUTLOOK 2023 – 2025

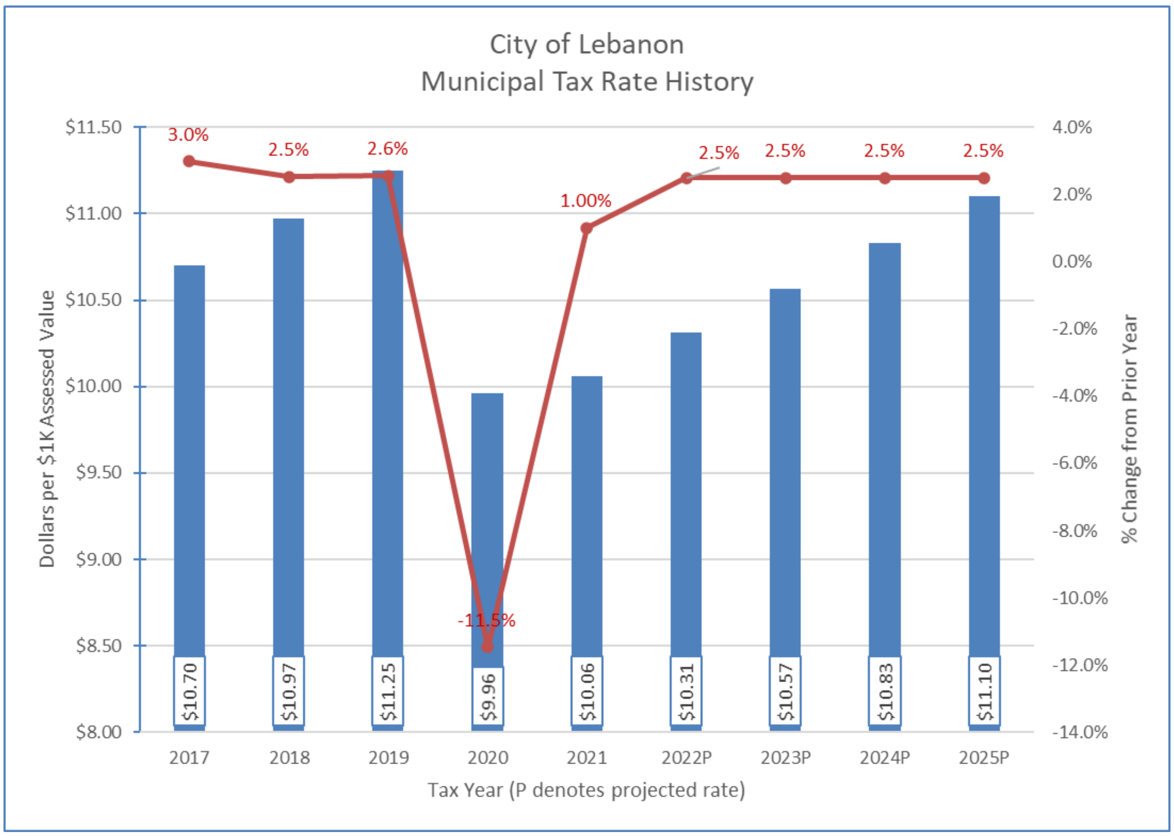
The Finance Department continues to gather information from departments and gain an understanding of past and future trends and assumptions as a basis for providing prudent financial management. As has been the case with recent reports pertaining to the City's financial outlook, much of the information being presented has been formulated without consideration for the addition or reclassification of personnel, the expansion of existing services, activities or programs, or new initiatives.

Future debt service requirements continue to be a focal point and a key component impacting the City's tax rate. With completion of the expansive Combined Sewer Overflow Separation and Utility Replacement Project (CSO) now behind us, we can begin shifting our attention to other capital needs. The Finance Department will continue to evaluate strategies to effectively manage project funding, to minimize the rate impact of future debt service, and continue to employ a system of debt issuance that limits new debt issuance equal to the level of currently expiring debt viewed over each, fixed, six-year capital improvement plan period (i.e.: 2023-2028).

As the City's reserves continue to be healthy, we recommend continuing the plan employed in FY 2020 which seeks to leverage those reserves to offset spikes in operational costs due to the issuance of debt across all funds, while adhering to the debt capacity limits recently approved by the City Council.

ESTIMATED TAX RATES

The current estimated tax rate for 2022 is $10.31 which is an increase of $0.25 or 2.5% from 2021. We are suggesting to continuing move forward with previous tax rate projections based on 2.5% inflation in the rate for fiscal years 2023-2025. The chart below presents a brief history of the City's municipal tax rate and the year-over-year percent change, including projections through 2025.

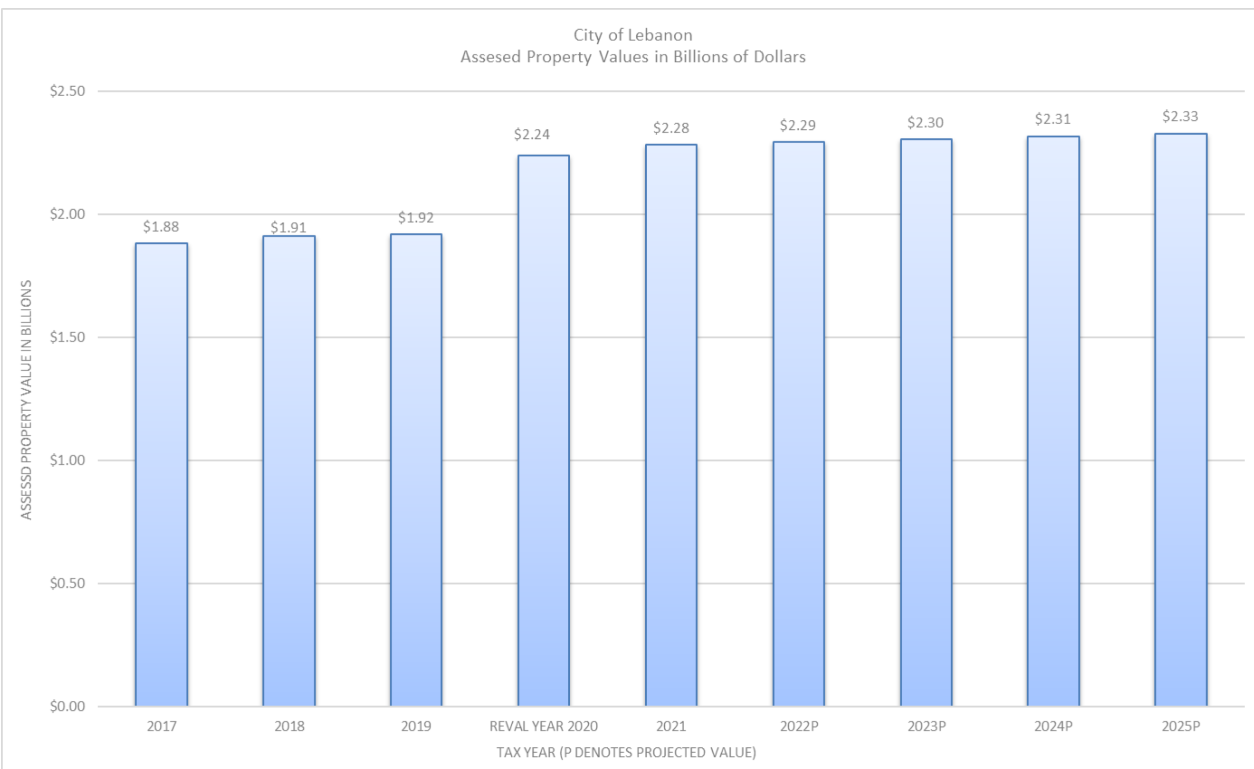


With respect to the 2.5% inflation rate being projected for 2022 through 2025, we noted that the average year-over change in the municipal tax rate for the ten years prior to 2021 (2015 and 2020 were revaluation years and were not included in this average) has been 2.4%. The table below is an example of the impact that can be expected on a home valued at $250,000 based on the above estimated tax rates.

Tax Rate for $250,000 Home				
Tax Year (1)	Tax Rate (2)	% Inc/(Dec)	Annual Tax Bill	Inc/(Dec) over Prior Year
2019	$11.25	2.55%	$2,812.50	$70.00
2020	$9.96	-11.47%	$2,490.00	($322.50)
2021	$10.06	1.00%	$2,515.00	$25.00
2022	$10.31	2.50%	$2,577.88	$62.87
2023	$10.57	2.50%	$2,642.32	$64.45
2024	$10.83	2.50%	$2,707.50	$65.18
2025	$11.10	2.50%	$2,775.00	$67.50
(1) Actual rate for 2021, estimated rates for 2022 - 2025.				
(2) Municipal tax rate only. Total tax rate includes education and county				

BUDGETARY CONSIDERATIONS

One of the important components of the annual tax rate setting process is the change in assessed property values. The City completed a revaluation process in 2020 and this was the primary factor causing the tax rate to be reduced by 11.47% from 2019. We are currently assuming a .5% increase in assessed values annually for tax years 2022-2025. The following chart presents a brief history of assessed property values and indicates projected new growth.



The City's General Fund operating and capital budgets, in total, comprise the spending plan that dictates the City's municipal tax rate component. The following are cost drivers that are estimated to have impact on the FY 2023 operating budget proposal that will be submitted by the City Manager at the end of October 2022.

- Multi-year contracts (2022-2024) with each of the City's four bargaining units contain provisions for a general wage increase (GWI) ranging from a minimum of 1% to a maximum of 3% based on Consumer Price Index-Northeast Region Urban Customers (CPI-U) for June 30th. In June 2020, that index produced a GWI of 1.5%, in June 2021 that index produced a GWI of 3.0%. While the final GWI rate cannot yet be determined for 2022, the following table presents the trend in the CPI-U rate since last June. As you can see January thru March have been over 6%, therefore anticipating a GWI of 3% for 2023.

			2021			
June	July	August	Sept	Oct	Nov	Dec
4.6%	4.3%	4.4%	4.6%	5.4%	6.0%	5.9%

	2022	
Jan	Feb	March
6.3%	6.6%	7.3%

- Health insurance premiums -The Finance Department will be in communication with its healthcare administrator (Health Trust) to facilitate the rate assumptions that will be used to develop the FY 2023 budget. Final rates for FY 2023 will not be available to the City until October 2022.

- Retirement rates increased substantially for all employee groups as of July, 2021. The following chart shows the approved NHRS rate increases:

	Rates		
Employee Group	7/1/19-6/30-21	7/1/21-6/30/23	% Increase
Employees	11.17%	14.06%	25.9%
Police	28.43%	33.88%	19.2%
Fire	30.09%	32.99%	9.6%

- As shown in the following table, debt service requirements will slightly decrease in the general fund in 2023 ($46,407) decrease when compared to 2022), before increasing an estimated $482,076 in 2024. As was mentioned earlier in this memo, the City's general fund reserves can potentially serve as an offset to the increase being forecasted in 2024, mirroring what was done to offset the large debt service increase experienced from 2020 to 2021.

General Fund									
FY	2021	2022	Inc. / (Dec.)	2022	2023	Inc. / (Dec.)	2023	2024	Inc. / (Dec.)
Principal	$ 3,558,343	$ 3,515,119	$ (43,224)	$ 3,515,119	$ 3,545,151	$ 30,032	$ 3,545,151	$ 3,921,955	$ 376,804
Interest	$ 1,439,602	$ 1,322,787	$ (116,815)	$ 1,322,787	$ 1,237,625	$ (85,162)	$ 1,237,625	$ 1,334,280	$ 96,655
Total Gen Fund	$ 4,997,945	$ 4,837,906	$ (160,039)	$ 4,837,906	$ 4,782,776	$ (55,130)	$ 4,782,776	$ 5,256,235	$ 473,459
Less: TIF Funded		$ (288,320)	$ (288,320)	$ (288,320)	$ (279,597)	$ 8,723	$ (279,597)	$ (270,980)	$ 8,617
Net Gen Fund	$ 4,997,945	$ 4,549,586	$ (448,359)	$ 4,549,586	$ 4,503,179	$ (46,407)	$ 4,503,179	$ 4,985,255	$ 482,076
Tax Impact	$ 2.19	$ 1.99	$ (0.20)	$ 1.99	$ 1.96	$ (0.02)	$ 1.96	$ 2.15	$ 0.22

As is the case in FY 2022, there may not be an Airport subsidy due from the general fund in 2023 due to the Airport Coronavirus Response Grant Program (ACRGP) reimbursement that the Airport received.

CONTINUING THE PROPOSED 2020 FINANCIAL PLAN

As the plan proposed in May 2020 has provided a steady financial course, we suggest continuing to carry out that plan. Specifically, utilizing the City’s general fund reserves to mitigate any future spikes in debt service, and moving forward with the rate proposals for both the Water and Sewer funds. Debt service inflation will continue to be a prime consideration in future budgets; however, the focus has now shifted from completion of the CSO project to the City’s significant other capital needs. There is also the impact of inflation on construction projects which will impact debt service as well as the increase of interest rates. Estimated new debt service to be issued in 2022 and 2023, across all funds, is shown in the table below:

PROJECT COMPLETION IN FY 2022 (REPAYMENT BEGINS IN FY 2023)						
Description	All Funds	General	Water	Sewer	Landfill	Airport
Combined Sewer Overflow Separation and Utility Replacement						
General Obligation	$ 1,600,000	$ 640,000	$ 480,000	$ 480,000	$ -	$ -
Total to be Issued 2022, Repayment Begins 2023	**$ 1,600,000**	**$ 640,000**	**$ 480,000**	**$ 480,000**	**$ -**	**$ -**

PROJECT COMPLETION IN FY 2022 (REPAYMENT BEGINS IN FY 2023)						
Description	All Funds	General	Water	Sewer	Landfill	Airport
Recreation Building	$ 120,000	$ 120,000	$ -	$ -	$ -	$ -
Library Renovations	$ 520,000	$ 520,000	$ -	$ -	$ -	$ -
Cemetery Building	$ 405,000	$ 405,000	$ -	$ -	$ -	$ -
226 Mascoma Street	$ 235,000	$ 235,000	$ -	$ -	$ -	$ -
Landfill Gas Utilization Project	$ 1,362,000				$ 1,362,000	
Airport TIFD Improvements	$ 1,700,000	$ 226,925	$ -	$ -	$ -	$ 1,473,075
Total to be Issued 2022, Repayment Begins 2023	**$ 4,342,000**	**$ 1,506,925**	**$ -**	**$ -**	**$ 1,362,000**	**$ 1,473,075**

PROJECT COMPLETION IN FY 2023 (REPAYMENT BEGINS IN FY 2024)						
Description	All Funds	General	Water	Sewer	Landfill	Airport
Mack Ave Infrastructure Improvements	$ 200,000	$ 80,000	$ 60,000	$ 60,000		
Forest Ave. Reconstruction	$ 105,000	$ 60,000	$ 45,000			
West Lebanon Capital Improvements	$ 200,000	$ 200,000				
Kimball St. Infrastructure Improvements	$ 3,507,900	$ 1,232,910	$ 1,052,370	$ 1,222,620		
Mechanic/High/Mascoma Street Intersection	$ 700,000	$ 700,000				
Radio Communicatins Repeater Replacement	$ 170,000	$ 170,000				
Miracle Mile Pedestrian & Transit Improvements	$ 200,000	$ 200,000				
Spencer St. Improvements	$ 1,000,000	$ 1,000,000				
Mechanic St. Bridge over Mascoma River	$ 70,000	$ 70,000				
South Main St. Bridge Replacement	$ 3,023,496	$ 2,773,496	$ 250,000			
Water System Improvements-Miracle Mile	$ 1,800,000		$ 1,800,000	$ -		
Huber Sludge Dewatering Press	$ 1,375,000			$ 1,375,000		
Septage Receiving Facility WWTP Upgrade	$ 50,000			$ 50,000		
Total to be Issued 2023, Repayment Begins 2024	**$ 12,401,396**	**$ 6,486,406**	**$ 3,207,370**	**$ 2,707,620**	**$ -**	**$ -**
Total Authorized and Unissued Debt as of 12/31/2021	$ 20,124,169	$ 9,040,935	$ 3,191,045	$ 4,462,489	$ 1,500,000	$ 1,929,700

Our prior plan assumed rate increases of 8% in the Water Treatment and Distribution Fund (Water Fund) and 7.2% in the Sewage Collection and Disposal Fund (Sewer Fund) through fiscal year 2023, For fiscal years 2024 through 2026, the Water Fund rates will increase 5% + CPI inflator WITH A CAP OF 8%, the Sewer Fund will be determined in the new model once received from Raftellis. The tables below represent our projections for both funds through 2027, maintaining these revenue assumptions, and using the expenditure assumptions listed therein:

Water Fund						
Description	2022	2023	2024	2025	2026	2027
Expenditures						
Operations	1,896,290	1,943,697	1,992,290	2,042,097	2,093,149	2,145,478
Debt Service	1,700,710	1,671,946	1,891,430	1,951,328	1,877,658	1,803,748
Admin Overhead and Other	544,290	555,176	566,279	577,605	589,157	600,940
Total Projected Expenditures	4,141,290	4,170,819	4,449,999	4,571,030	4,559,964	4,430,201
Projected Revenues	4,210,810	4,337,134	4,380,506	4,424,311	4,468,554	4,513,239
Projected Net Revenue (Expense)	69,520	166,315	(69,493)	(146,719)	(91,411)	83,039
Assumptions:						
2.5% Inflation in operational expenditures						
Debt Service as currently projected						
2% inflation in administrative overhead						
3% inflation in annual revenues 2022-2023						
1% inflation in annual revenues 2024-2027						

Sewer Fund						
Description	2022	2023	2024	2025	2026	2027
Expenditures						
Operations	3,642,700	3,751,981	3,864,540	3,980,477	4,099,891	4,222,888
Debt Service	2,975,820	2,962,829	3,151,863	3,153,221	3,072,059	2,983,327
Admin Overhead and Other	645,810	658,726	671,901	685,339	699,046	713,026
Total Projected Expenditures	7,264,330	7,373,536	7,688,304	7,819,036	7,870,995	7,919,241
Projected Revenues	7,277,230	7,713,864	7,906,710	8,104,378	8,306,988	8,514,662
Projected Net Revenue (Expense)	12,900	340,328	218,406	285,342	435,992	595,421
Assumptions:						
3% Inflation in operational expenditures						
Debt Service as currently projected						
2% inflation in administrative overhead						
6% inflation in annual revenues 2022-2023						
2.5% inflation in annual revenues 2024-2027						

As outlined earlier in this report, and in keeping with our proposed financial plan, we suggest leveraging fund balance reserves to offset deficits projected in the Water Fund and to minimize rate fluctuations. The Sewer fund appears to be self-sufficient for the foreseeable future.

In the Solid Waste Disposal fund the impact of new debt service is related to completion of the Landfill Gas to Energy project which now has an estimated completion date of summer, 2023. The schedule below shows the impact of that project's completion on debt service expenditures.

Solid Waste Disposal Fund									
FY	2020	2021	Inc. / (Dec.)	2021	2022	Inc. / (Dec.)	2022	2023	Inc. / (Dec.)
Principal	$ 295,000	$ 295,000	$ -	$ 295,000	$ 295,000	$ -	$ 295,000	$ 370,000	$ 75,000
Interest	$ 59,000	$ 47,200	$ (11,800)	$ 47,200	$ 35,400	$ (11,800)	$ 35,400	$ 68,600	$ 33,200
Total	$ 354,000	$ 342,200	$ (11,800)	$ 342,200	$ 330,400	$ (11,800)	$ 330,400	$ 438,600	$ 108,200

We have yet to determine whether the fund's annual revenues can absorb the FY 2023 debt service expenditure increase, but as of 12/31/2021 the fund's unassigned fund balance (unaudited) is $3,043,768. It would appear the reserves can offset the expenditure increase if such is deemed necessary. The Landfill Gas to Energy project is projected to be revenue positive in the first year. The revenues will exceed operational expenses as well as principal and interest payments by approximately $270,000.

Fund Balance

It is the policy of the City of Lebanon to maintain unassigned fund balance in the general fund between 19% and 24% of general fund revenues measured on a GAAP basis. The National GFOA (Government Finance Officers Association) recommendation is "…at a minimum, that general purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or general fund operating expenditures."

The City considers a balance of less than 19.0% to be a cause for concern and considering factors or circumstance that may require a higher-than-normal maximum level of Unassigned Fund Balance, a balance of more than 24% as excessive. In the event unassigned fund balance is less than 19.0%, restorative steps shall be taken in the immediate subsequent fiscal years.

In the several years prior to 2021, general fund reserves were intentionally built to cover payments estimated to be necessary for the CSO project that we knew would be completed by 2021. In 2021, the City's budgetary plan included the use of $1.2 million in general fund reserves to cover the increased debt service costs included therein. We propose a similar plan to offset the estimated $482,076 increase in debt service that will occur in 2024. By using reserves in this manner, and by utilizing reserves to help fund future capital projects, we can move reserve balances to a level more in line with the 24% maximum level required by the City's fund balance policy. Below is the history of spendable fund balance for each governmental fund:

GENERAL FUND							
Year	Spendable Fund Balance	Budgeted Expenditures	Spendable Fund Balance as % of Budgeted Expenditures	Year	Spendable Fund Balance	Budgeted Expenditures	Spendable Fund Balance as % of Budgeted Expenditures
1989	$392,977			2006	$3,648,180	$18,976,064	19.2%
1990	$49,255	-	-	2007	$3,528,060	$20,628,410	17.1%
1991	($123,953)	-	-	2008	$2,877,328	$22,224,148	12.9%
1992	$112,425	-	-	2009	$3,404,816	$23,371,896	14.6%
1993	$354,751	-	-	2010	$4,369,689	$23,655,320	18.5%
1994	$583,598	-	-	2011	$4,226,292	$24,458,130	17.3%
1995	$1,526,378	-	-	2012	$4,920,043	$24,953,970	19.7%
1996	$1,965,443	-	-	2013	$6,996,142	$25,450,451	27.5%
1997	$2,213,586	-	-	2014	$5,681,942	$27,989,723	20.3%
1998	$2,443,960	-	-	2015	$6,501,198	$27,166,140	23.9%
1999	$2,014,190	-	-	2016	$8,608,221	$27,924,630	30.8%
2000	$2,799,415	$13,071,110	21.4%	2017	$10,640,252	$29,338,760	36.3%
2001	$2,218,058	$14,462,230	15.3%	2018	$11,676,062	$30,738,370	38.0%
2002	$3,634,094	$15,068,913	24.1%	2019	$12,245,083	$32,508,264	37.7%
2003	$3,707,470	$15,706,950	23.6%	2020	$13,181,286	$33,826,895	39.0%
2004	$3,811,340	$16,404,038	23.2%	2021*	$12,215,000	$35,461,300	34.4%
2005	$4,217,802	$17,157,370	24.6%	2022 (P)	$8,915,000	$36,616,370	24.3%
*Unaudited, (P) Projected							

Fund Balance				
FY	Water	Sewer	Landfill	Airport
2004	$ 717,355	$ 430,436	$ 1,007,954	$ (34,958)
2005	$ 705,901	$ 302,147	$ 1,187,323	$ (44,847)
2006	$ 643,447	$ (300,318)	$ 1,410,827	$ (265,496)
2007	$ 763,301	$ 24,832	$ 1,187,227	$ (779,775)
2008	$ 591,591	$ (63,657)	$ 912,497	$ (1,226,451)
2009	$ 13,863	$ 140,471	$ 872,282	$ (716,815)
2010	$ 7,840	$ 128,305	$ 1,189,594	$ (468,417)
2011	$ 269,578	$ 942,695	$ 2,068,205	$ (404,850)
2012	$ 646,832	$ 1,477,123	$ 2,063,860	$ (376,415)
2013	$ 804,809	$ 1,750,416	$ 2,737,273	$ (209,534)
2014	$ 904,006	$ 2,648,712	$ 2,991,938	$ (150,219)
2015	$ 892,409	$ 3,327,697	$ 3,286,395	$ (347,562)
2016	$ 1,146,280	$ 2,361,123	$ 3,632,026	$ (576,964)
2017	$ 1,730,562	$ 3,155,891	$ 3,613,404	$ (584,225)
2018	$ 2,450,803	$ 3,005,765	$ 2,218,099	$ (630,622)
2019	$ 2,612,863	$ 2,507,145	$ 2,688,564	$ (611,478)
2020	$ 3,129,632	$ 3,284,206	$ 2,898,244	$ 371,114
2021*	$ 3,448,418	$ 3,296,463	$ 2,998,311	$ 1,081,817
2022 (P)	$ 3,517,938	$ 3,296,463	$ 3,079,091	$ 1,023,555
* Unaudited, (P) Projected				

As was stated above relative to the General Fund, reserves in the Water and Sewer Funds have been built up to help cover some of the costs of the CSO project. Over the past 10 years the rates have averaged approximately 5.7% for water and 7.1% for sewer to help build up the fund balances in these accounts. Prior to this there were no rate increases from 2002 to 2006. As stated above, our recommendation for water and sewer rates using the new model for the rates starting in 2024.

CAPITAL RESERVES:

Funding capital reserves at sufficient levels to cover significant equipment and infrastructure projects helps the City reduce the need for long-term financing. The following table shows capital reserve activity and balances from 2019 through the end of the first quarter of 2022:

	2019 YE	2020 YE	2021 YE	As of March 31, 2022
CAPITAL RESERVE BALANCES	Balances	Balances	Balances	Balances
Fire Department Equipment and Vehicles	$ 276,385	$ 211,022	$333,208	$641,969
DPW Equipment and Vehicles	$ 71,157	$ 7,567	$57,086	$225,028
Dana House	$ -	$ 51,106	$25,788	$25,164
Recreation and Parks Improvement and Equip	$ 62,147	$ 84,170	$103,402	$120,722
Parking Facilities Repairs/Maintenance	$ 28,524	$ 29,230	$29,024	$28,326
Police Equipment Vehicles and Improvements	$ 72,806	$ 95,101	$94,431	$92,161
Library Facilities Capital Improvement Fund	$ 51,414	$ 52,704	$52,338	$51,101
Water Treatment & Distribution Improvements/Equip	$ 556,753	$ 791,984	$890,021	$1,067,174
Sewer Collection & Disposal Improvements/Equip	$ 164,429	$ 458,463	$770,936	$745,980
Landfill Extended Long-Term Monitoring & Maintentance Entire Facility	$ 673,086	$ 728,801	$762,466	$777,662
Landfill Closeout/Long-Term Monitoring & Maintenance Facility (lined)	$ 8,144,383	$ 8,575,190	$8,776,613	$8,610,286
Landfill Equipment	$ 206,633	$ 523,336	$620,744	$503,675
Landfill Improvements	$ 323,179	$ 330,153	$329,634	$319,888
Accrued Benefits Liability-GF	$ 169,000	$ 274,952	$240,469	$289,199
Accrued Benefits Liability-SW	$ 28,500	$ 48,039	$49,355	$53,160
Accrued Benefits Liability-WF	$ 29,350	$ 50,442	$38,637	$42,703
Accrued Benefits Liability-SF	$ 40,800	$ 62,145	$56,497	$60,131
Accrued Benefits Liability-Airport	$ -	$ 16,349	$21,188	$20,675
	$ 10,898,547	$ 12,390,755	$ 13,251,838	$ 13,675,004
General Fund	$ 731,434	$ 805,853	$ 935,747	$ 1,473,670
Solid Waste Fund	$ 9,375,781	$ 10,205,519	$ 10,538,811	$ 10,264,671
Water Treatment & Distribution Fund	$ 586,103	$ 842,426	$ 928,658	$ 1,109,876
Sewage Collection and Disposal Fund	$ 205,229	$ 520,608	$ 827,434	$ 806,111
Airport Fund	$ -	$ 16,349	$ 21,188	$ 20,675
	$ 10,898,547	$ 12,390,755	$ 13,251,838	$ 13,675,004

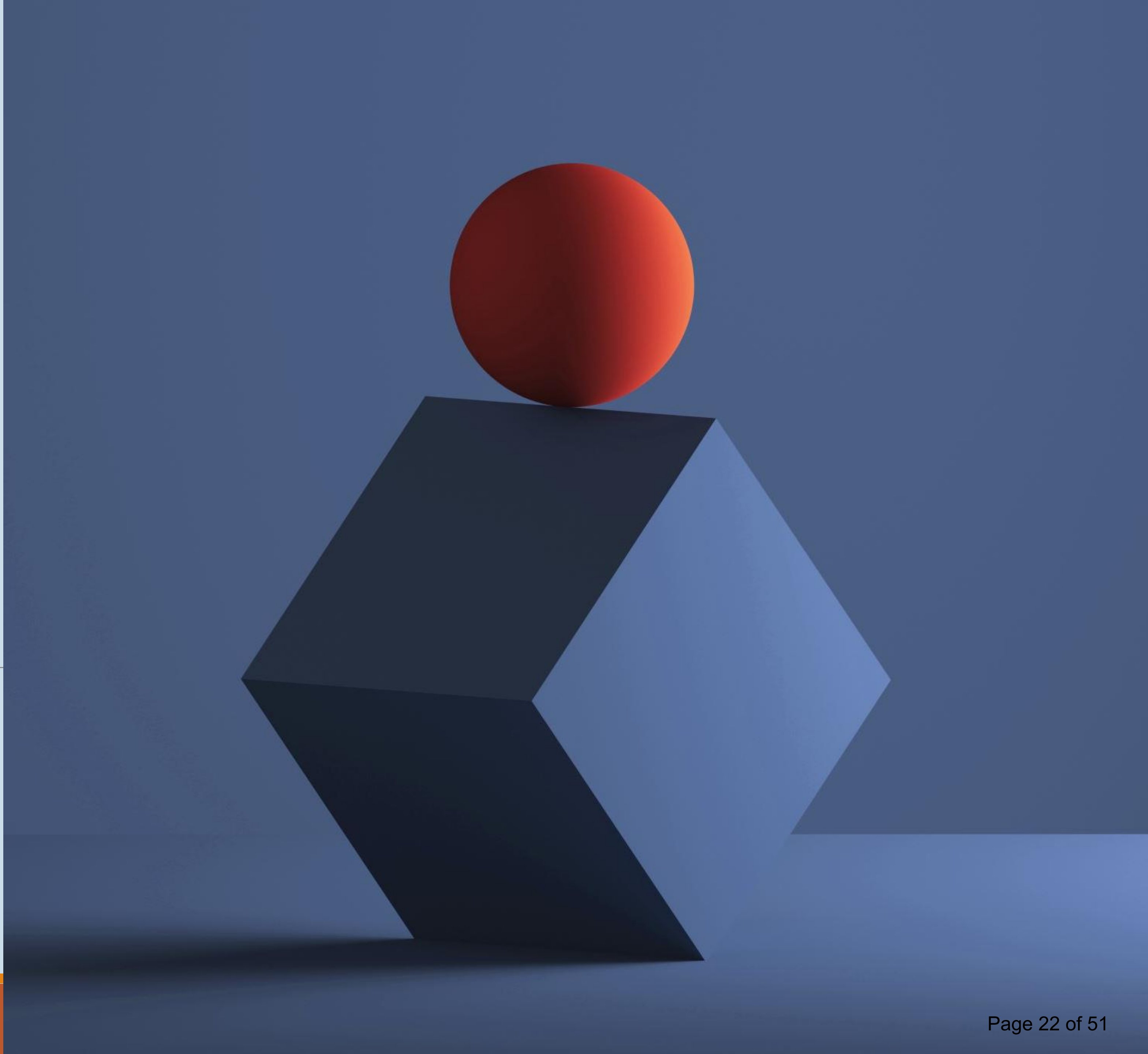
Summary

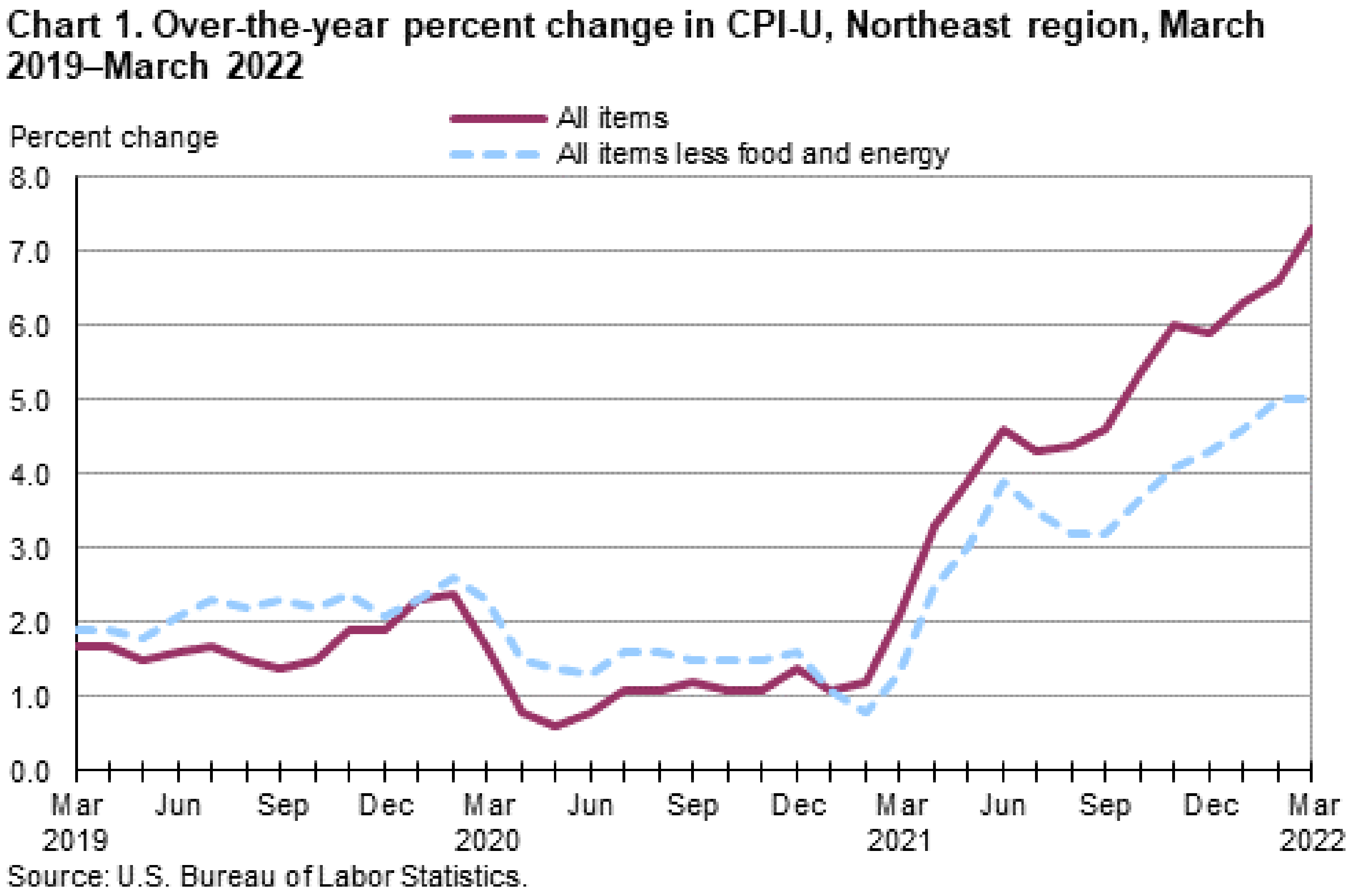
The Finance Department recommends leveraging fund balance reserves to help offset future debt service requirements and reducing the need for future long-term capital financing by using reserves to help fund capital projects/reserves. We also propose to continue the philosophy of limiting future debt service paid for by the General Fund to that which will be "coming off the books" each year, as viewed over the length of each successive year's capital improvement plan.

It continues to be the Finance Department's goal to provide the City Manager and City Council with relevant and timely information that will enable all parties to make informed policy decisions. We welcome your feedback and comments as to what information we can provide in the future to facilitate those decisions and we will be happy to answer any questions that you may have.

2023 Financial Outlook

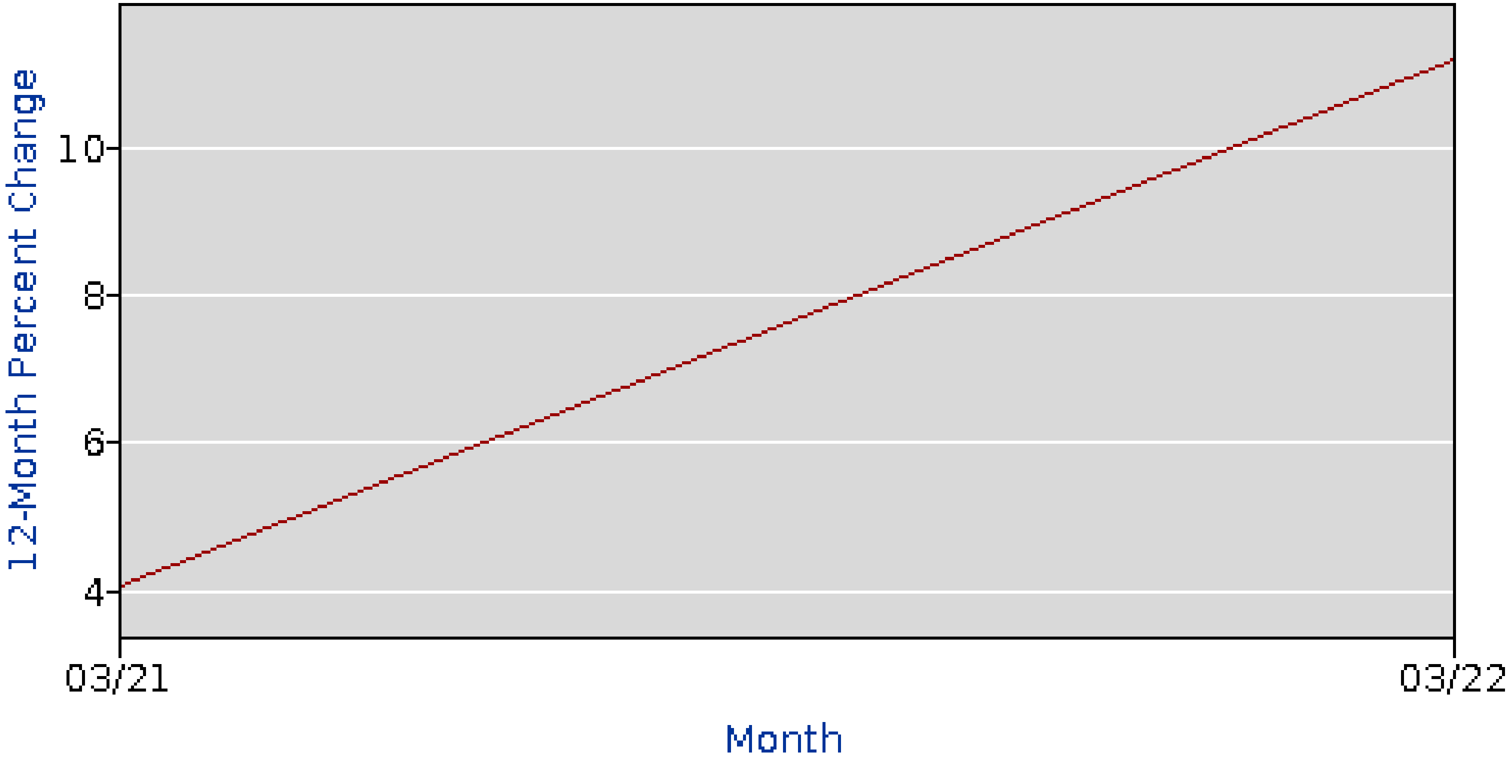
CITY OF LEBANON, NEW HAMPSHIRE





Consumer Price Index

Producer Price Index



City Revenue Impacts Vary by Source

- Property Tax
- MV Registration Fees
- Rooms & Meals Tax
- Development Fees
- Utility Users Tax, Franchise Payments
- Recreation and Fee Programs

State Revenue Impacts

- Retirement Contribution-Police & Fire only, 7.5% for 1 Year
- Increased Municipal Bridge Aid & Highway Block Grant funding
- Grants relative to Housing
- Rooms & Meals Tax Distribution

PLANNED TAX RATE INCREASES

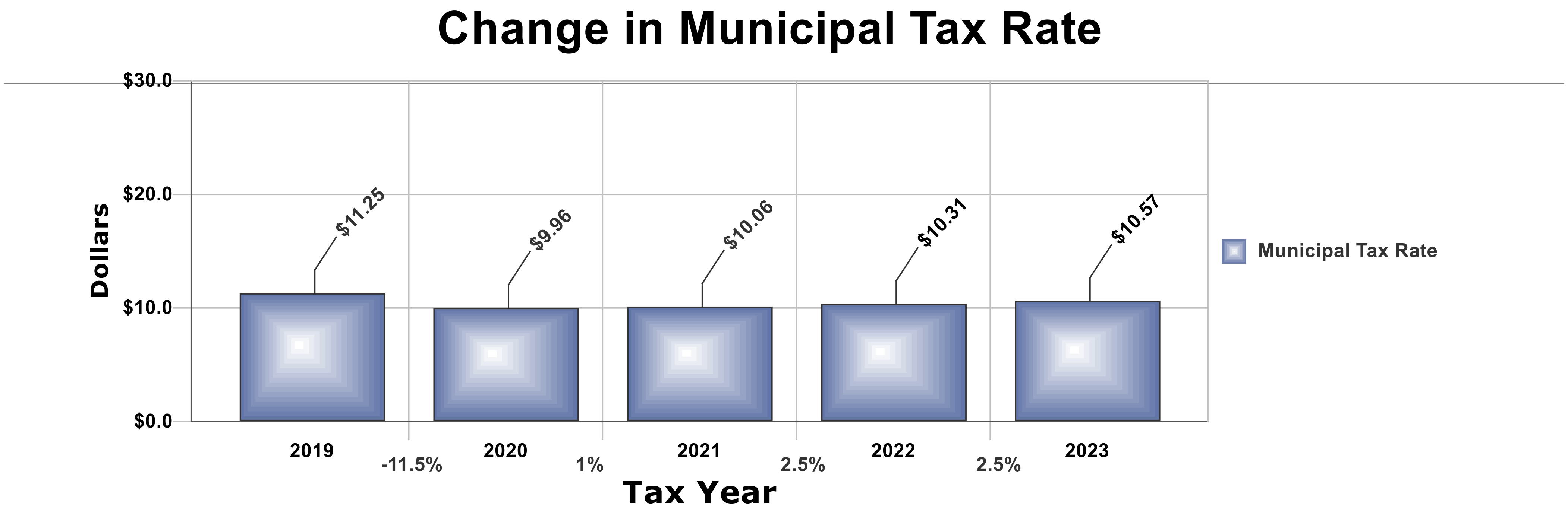
Tax rate increases were planned in conjunction with the use of fund balance to reduce tax rate spikes and allow for adequate service delivery.

Planned tax rate increases

2022- 2.5%

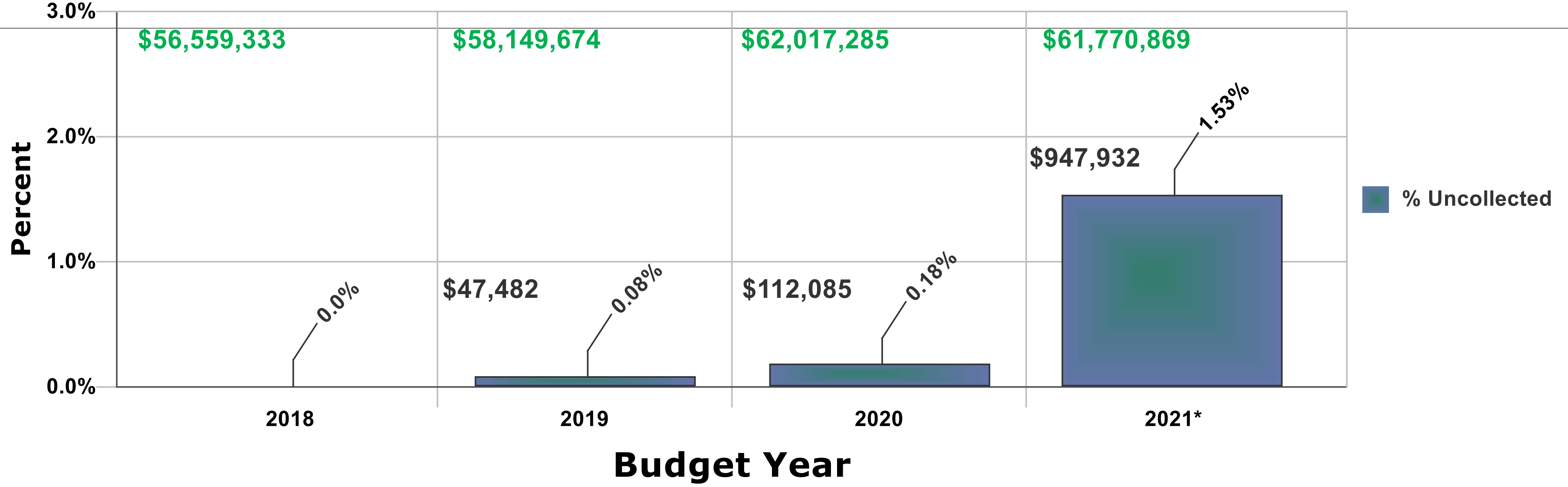
Projected tax rate increases for 2023-2025

Less than 2.5% each year



NOTE: Years 2022 and 2023 are projected based on a set of variable assumptions

Property Tax Uncollected



NOTE: 2021 Uncollected includes $728,283 due from Alice Peck Day Hospital which is in negotiations relative to a PILOT agreement

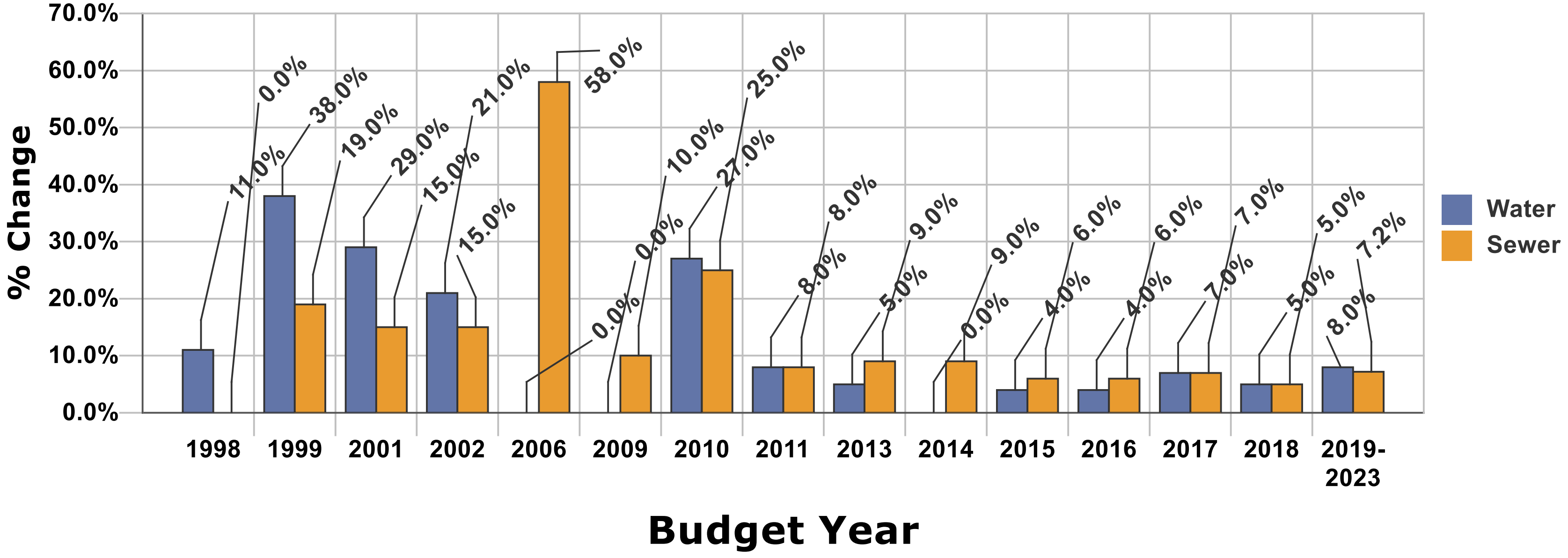
Total Amount of Property Tax Warrant

Payment In Lieu of Taxes (PILOT)

Alice Peck Day Hospital owes approximately $728,283 in property taxes

PILOT agreement presently under negotiation

Water & Sewer Rate Increases



* 2019-2023 8% and 7.2% actual or planned for each year

Water & Sewer Bills Uncollected

Water		Sewer	
Assessed	$3,528,470	Assessed	$5,638,407
Uncollected	$24,232	Uncollected	$21,578

Limitation of Future Capital Projects General Fund

The amount of new debt would be limited to the amount of retired debt over a six-year fixed period.

$28,674,949 in debt principal will be paid from 2022-2028

Only $33,507,921 in new debt would be planned over this period

Maintains the City's debt GF debt ceiling

Allows for transition to the long-term financial plan and long-term stabilization of the tax rate

Exception- Expenditure/Revenue neutral projects based on actual dollars

Impacts on CIP

Projects have been backed up due to the impact of the CSO

Failure to address known issues may result in cascading impacts

- Facilities
- Transportation Infrastructure
- Equipment and Vehicles

Could result in higher long-term costs and negative service delivery impacts

Unassigned Fund Balance Ratios

Policy requires fund balance to be between 19% and 24% of Revenues or Expenditures for any budget year

Present fund balance is 34.4% (2021 Unaudited)

Use fund balance at $3.3 million for 2022 tax rate stabilization

Utilize excess fund balance after debt smoothing to fund Capital Reserve Funds

Fund Balance Use to Offset Debt. Service

The plan is to offset the increase in debt service for 2022 by the use of approx. $3.3 million from fund balance to stabilize the tax rate.

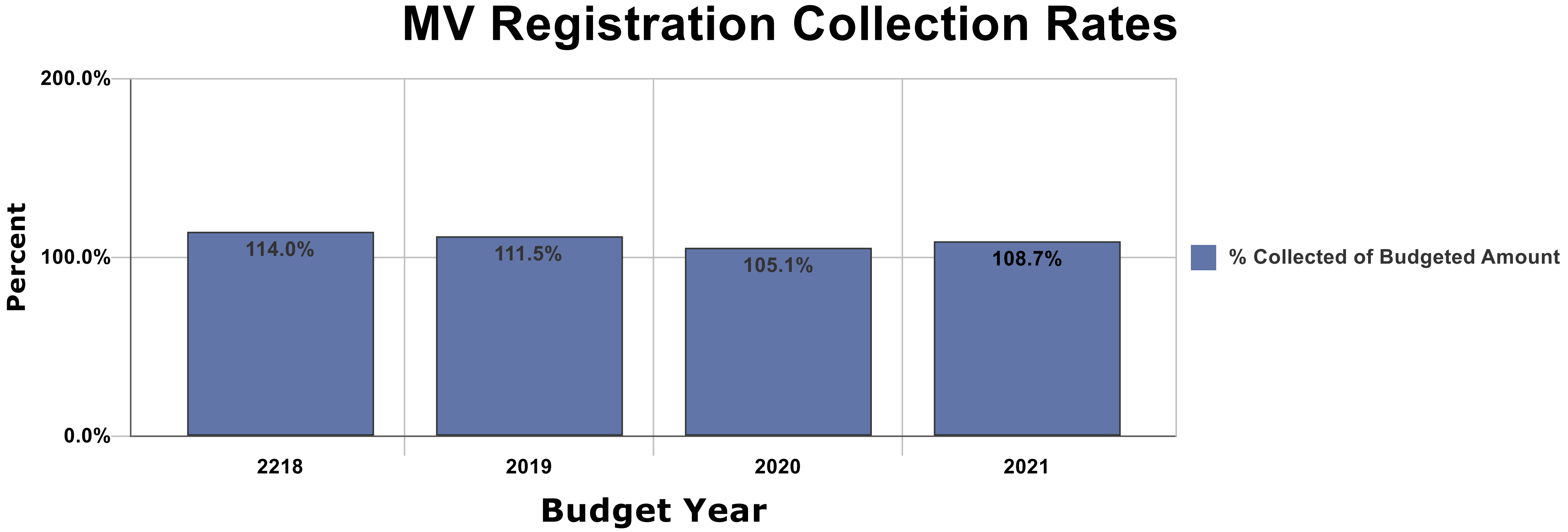
The Unassigned Fund Balance of the General Fund will be approx. $12.2 million.

The plan requires the use of fund balance and tax rate increases to smooth the impact of debt service on the budget.

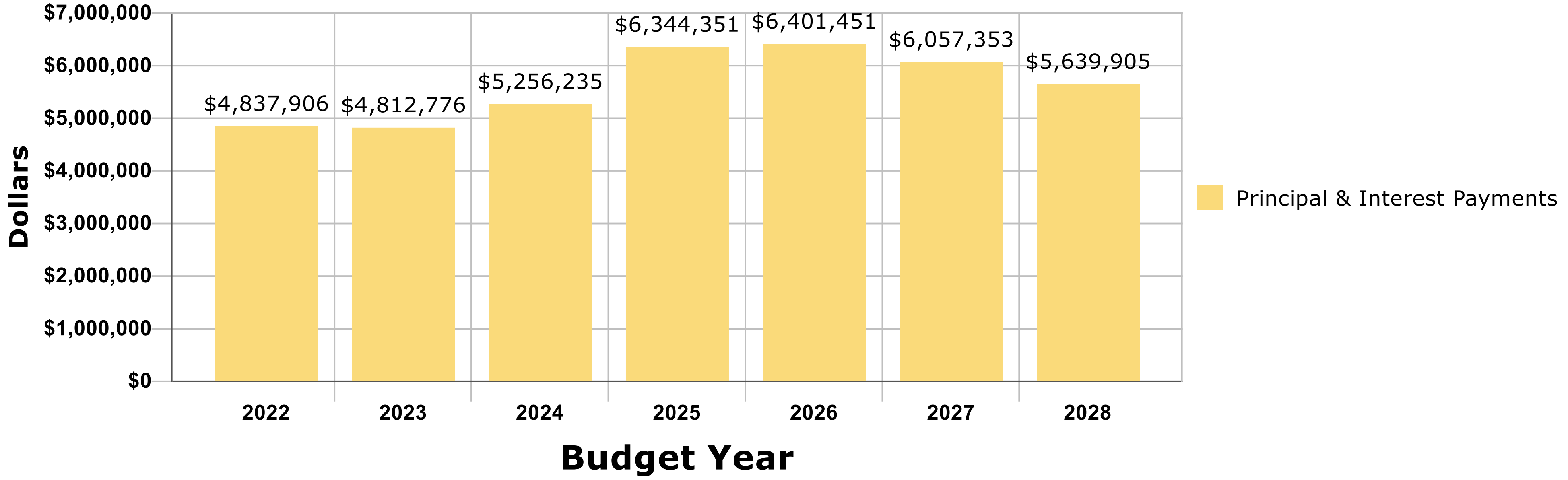
Long Term Financial Plan

Reduce or eliminate	Reduce or eliminate the use of fund balance to offset the tax rate.
Utilize	Utilize the Unassigned Fund Balance to offset the cost of Capital Projects • Pay as you go- using cash to pay for projects/equipment • Capital Reserve Funds
Eliminate	Eliminate the use of the UFB to subsidize the cost of operating expenses

GENERAL FUND

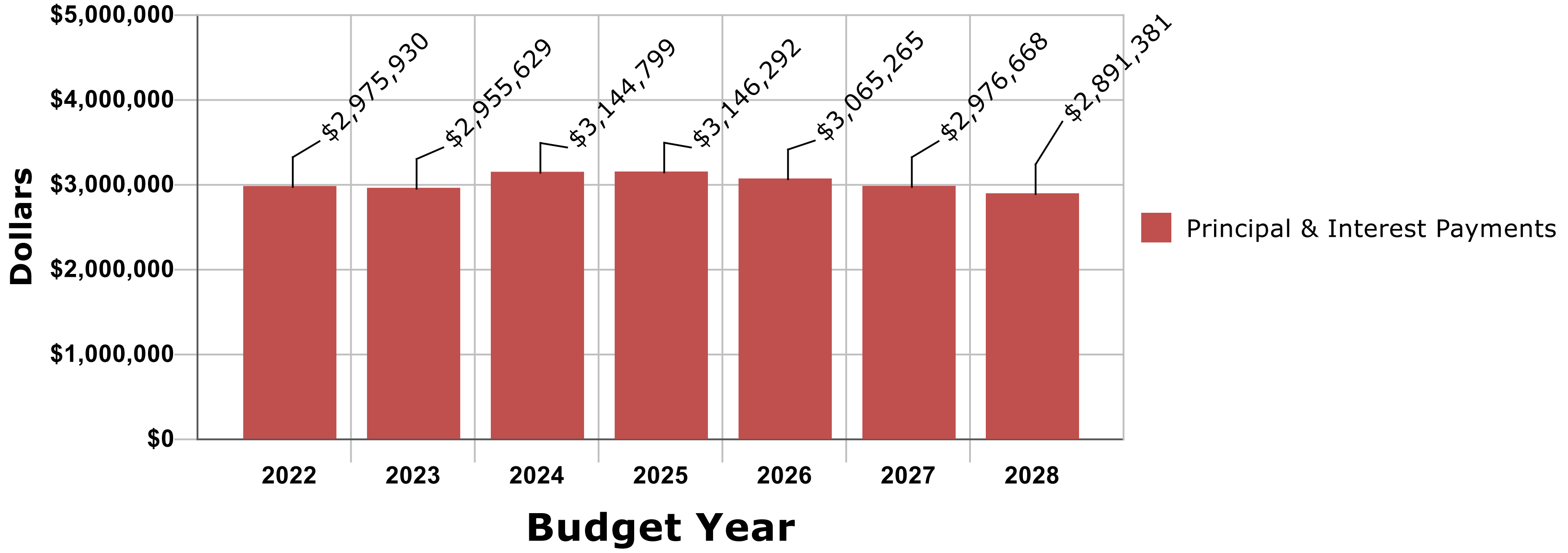

MV Registration Collection Rates
200.0%
100.0%
0.0%
Percent
114.0%
111.5%
105.1%
108.7%
2218
2019
2020
2021
Budget Year
% Collected of Budgeted Amount

General Fund Debt Service

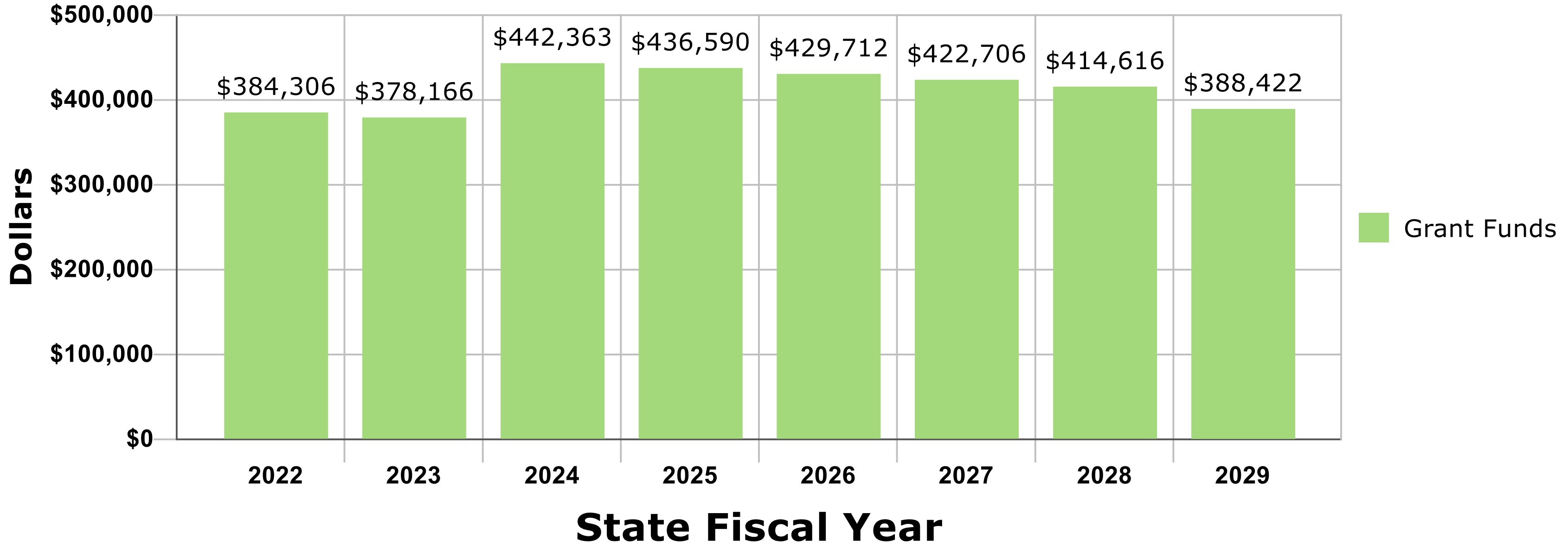


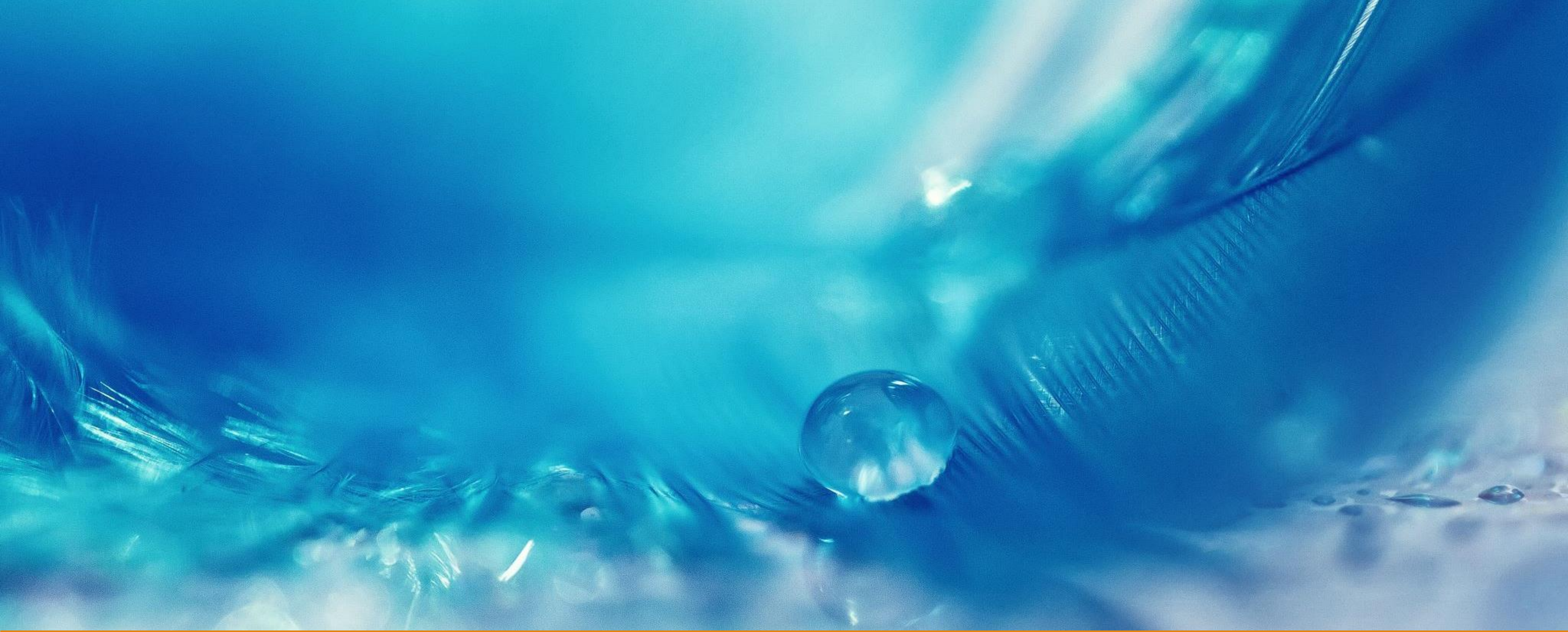
SEWER FUND

Sewer Fund Debt Service



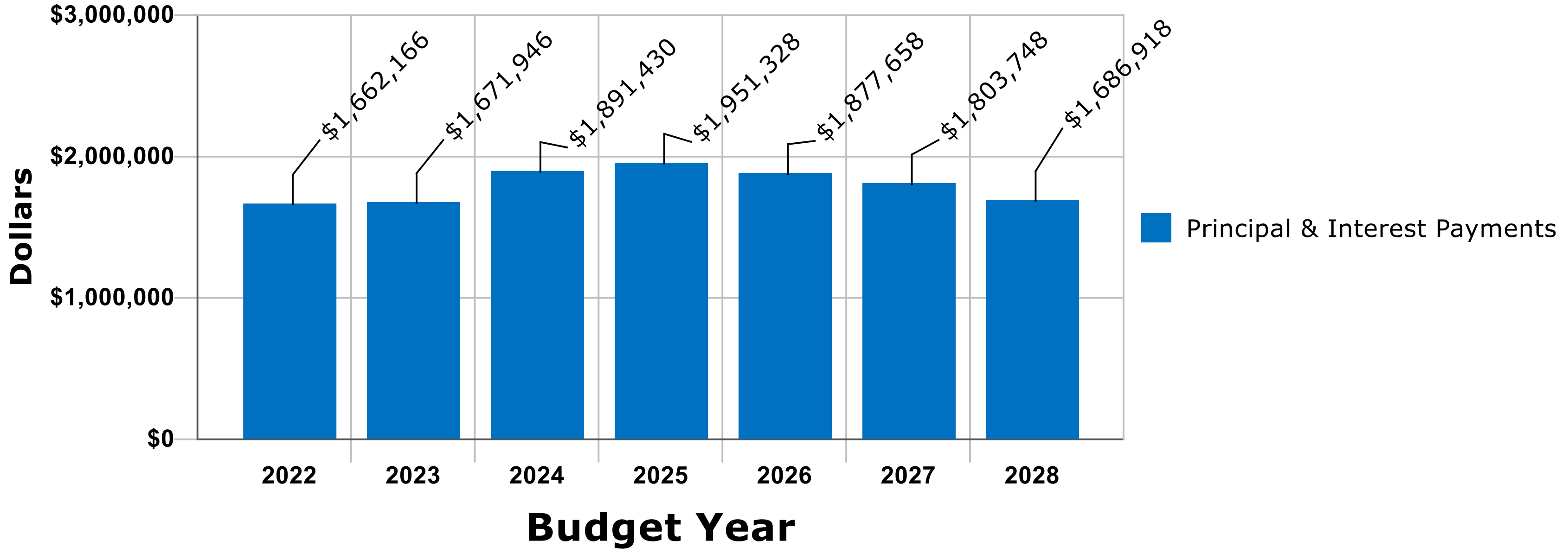
State Aid Grants-Wastewater Projects





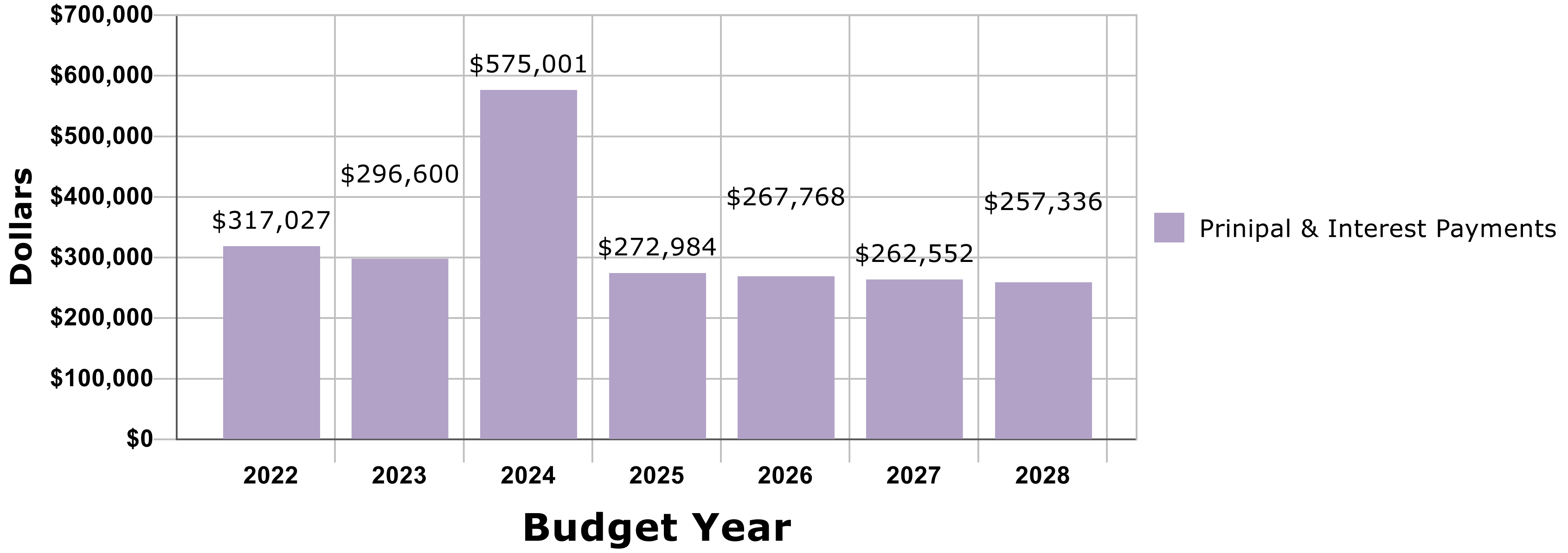
WATER FUND

Water Fund Debt Service



SOLID WASTE FUND

Solid Waste Fund Debt Service

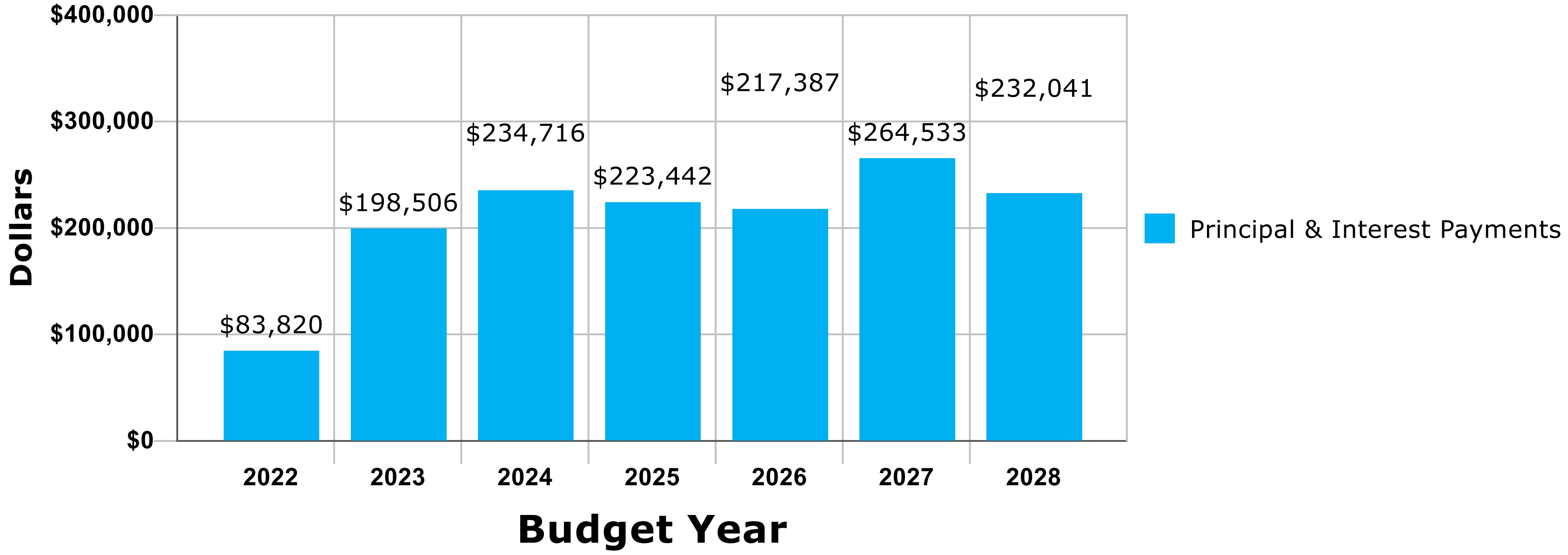


AIRPORT

Airport COVID Related Grants

Grant Name	Award Year	Amount	Drawdown	Remaining
CARES Act	2020	$1,060,370	$1,060,370	$0.00
ACRGP (Airport Coronavirus Response Grant Program)	2021	$1,003,521	$671,743	$331,778
ACRGP Concession Relief	2021	$2,220	$0	$2,220
ARPA (Airport Rescue Grant)	2022	$1,051,081	$15,459	$1,035,622

Airport Fund Debt Service



General Fund Subsidy to the Airport Fund