FINAL

LEBANON CITY COUNCIL
BUDGET WORK SESSION MINUTES
Wednesday, November 7, 2023, 7:00 p.m.
Council Chambers
Remote Via Microsoft Teams: LebanonNH.gov/Live

MEMBERS PRESENT: Mayor Tim McNamara, Assistant Mayor Clifton Below, Erling Heistad, Karen Liot Hill, Christian Simon, George Sykes, Douglas Whittlesey (Remote), Devin Wilkie, and Karen Zook

MEMBERS ABSENT:

STAFF PRESENT: City Manager Shaun Mulholland, Deputy City Manager, Special Project Paula Maville, Cyber Services Director Perry Eaton, Library Director Sean Fleming, Airport Director Carl Gross, Deputy Chief of Police Matthew Isham, Finance Director Vicki Lee, Director of Planning & Development Nathan Reichert, Chief of Police Phillip Roberts, Deputy Finance Director Alesia Williams

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1. **CALL TO ORDER:** Mayor McNamara called the meeting to order at 5:30 p.m.
   - Councilor Whittlesey attended this meeting remotely.

City Manager Shaun Mulholland noted this a workshop and no action would be taken by the Council tonight. Action on budget items will occur at the Public Hearing on December 13, 2023. The purpose for tonight's meeting is so the City Council can understand the budget and ask questions based on the information provided.

2. **Review Of 2024 City Budget - Question & Answer Session**
   - City Manager (To include City Manager & City Council Operations, Legal, and Advance Transit)

City Manager Shaun Mulholland requested that Advance Transit give their presentation first.

Advance Transit (AT)
REQUESTING: $342,100.

Included in Agenda Packet***: (All supportive documents and financial information can be found on Pages 5-127, Council agenda packet)***

BACKGROUND:

Year	Amount Requested	Amount Received
2021	$249,710	$249,710
2022	$249,710	$249,710
2023	$267,200	$267,200

	Program/Service/Activity	Amount Requested
A.	**Public Transportation Service**	**$275,210.00**
B.	**Weekday Evening and Saturday Public Transit Service**	**$66,890.00**
C.		**$0.00**
D.		**$0.00**
E.		**$0.00**
F.		**$0.00**
G.		**$0.00**
	TOTAL	**$342,100.00**

Funding is used to support a portion of the cost of providing public transit service. Lebanon's contribution, in cooperation with funds from other municipal and private partners in the region, allows AT to leverage state and federal grants for the same purpose. An additional request is being made this year to extend the schedule of the Red, Blue, Orange, and Green routes by two hours on weekday evenings and to provide ten hours of Saturday service on those same four routes. This expansion addresses a long- standing desire from AT's riders, community members, and local leaders for additional hours of service.

Mr. Adams Carroll, Executive Director of Advance Transit, briefly reviewed the background and reasons behind his requested increase. He talked about their expanded services for evenings and Saturdays that started in September (2023). Two additional hours were added on weekday evenings and 10 hours of service on four routes on Saturdays. For the 4 buses on Saturdays at 10-hours for each route, it is about 40 hours. For the 4 buses on weekdays, it also works out to about 40 hours. Ridership has been very strong for both. On weekday evenings, in Lebanon alone, we had 2800 boardings for the first 6 weeks and on Saturdays we had 2,794 Boardings over the 6-week period. November numbers should be coming out soon and this data will be published on their website. While it is fun to see the numbers go up, for him it has been more meaningful to talk to riders and to hear about what it means for people to have these expanded hours and gave examples.

Mr. Carroll noted that for funding we did get additional support from our Federal Grant Programs through the State of New Hampshire/Vermont. These are Federal reimbursement grants that will cover the majority of the cost of the new services, but in order to use those Federal Funds, we need to bring a local match to the table: For Operations it is a 1-1 match; there are some categories where we have a higher reimbursement rate (i.e., preventative maintenance, paratransit) which are 80% reimbursements. We also have increased funding from Dartmouth College and a commitment from DHMC to increase their funding next year. We are in the process of going to the voters in Norwich, Hanover, and Canaan to get on their ballots next year. In Harford and Norwich, VT we get on the Town Meeting Warrant and the voters directly vote.

Council Discussions:

In response to Mayor McNamara's question, Mr. Carroll noted that Dartmouth launched their new service last year and have added another route this year. The Dartmouth bus shuttles are only for Dartmouth's students, faculty and staff members. The goal behind their service is because there are more Dartmouth students living off campus.

In response to Councilor Liot Hill's questions regarding AT's operation budget, Mr. Carroll stated it is about $7.5M and a +/- 20% increase for the addition of extra hours. In addition to the buses on the road, we also need office support staff, a dispatcher, a shift supervisor, a mechanic for breakdowns, etc.

Councilor Sykes questioned if it might be possible to make the on demand type service more visible to Alice Peck Day patients. Mr. Carroll noted that one of the things they are working on is the idea of a variant to the Red Route and explained his thoughts on how this would be done.

City Manager Mulholland reviewed the remaining 2024 City Manager's proposed budget items (below), noting it is a total 1% increase that includes Advance Transit.

City Council: ***(Page 4, Council agenda packet)***
REQUESTING: $3,727 (A 0% increase from 2023)

City Manager Operations ***(Page 4, Council agenda packet)***
REQUESTING: $649,980 (An increase of $63,140 or 11%)

City Manager Other: GER ***(Page 4, Council agenda packet)***
REQUESTING: $65,000 (New)

Department: Legal ***(Page 4, Council agenda packet)***
REQUESTING: $250,000, (A decrease of $50,000/-17%)

Council Discussions:

Councilor Sykes suggested that during this year's budget work sessions, we find the time to have more substantive discussions about whatever changes the Council might be thinking about rather than waiting until the Public Hearing in December, noting he may have possible cuts/changes in the way we look at things and felt the workshops were the best place to discuss these.

Mayor McNamara encouraged the Council to reach out to the City Manager with any questions, comments, suggestions in advance (of a work session).

Assistant Mayor Below questioned why Legal items were distributed to different departments. City Manager Mulholland noted that when the City switched to BS&A software, our finance staff was able to do a lot more work with this program (i.e., the series of account codes are longer, which allowed us to do a lot more things with our programming and budget tracking and allows us to get a better idea of what we are spending our money on).

Councilor Simon noted that in the past there was some discussions about adding a City Attorney and asked if there has been any talk/thought about this recently. City Manager Mulholland said no and gave his reasons why he felt this was not a good idea and how it would be more costly, noting that if we did this, we would not only have to hire an attorney, but a paralegal and probably an administrative assistant so we would be looking at hiring 3 people to do the same work our firm is now doing.

In response to Councilor Whittlesey's question regarding why part-time wages are going up, City Manager Mulholland said it was to cover the salary for Ms. Maville in her role as Deputy City Manager - Special Projects. Ms. Maville will backfill for him here at City Hall and he spoke about the projects on her radar to make sure we stay on top of issues. He also noted that he needs to spend more time at DPW due to leadership changes.

Councilor Whittlesey asked if there was any kind of expected reduction in the budget to account for vacancies or would these just roll into the Unassigned Fund Balance at the end of 2024. City Manager Mulholland was not anticipating there would be any funds from DPW going into the Unassigned Fund

Balance. DPW needs to spend every dime in their budget to do road work that we are so far behind on and if there are any funds left over, they will encumber those funds to do sidewalks, etc. The Council will be hearing more about this tomorrow, November 8, 2023.

In response to Councilor Whittlesey's request regarding (Departmental) Software Support Services, City Manager Mulholland stated we have been consolidating all those line items into Cyber Services.

4. Presentation By City Manager & Finance Director

- Overview of Proposed 2024 Annual Budget

Included in Agenda Packet***: (The presentation in its entirety can be found on Pages 128-159, Council agenda packet.)***

Available but not included in Agenda Packet:
City of Lebanon 2024 Proposed Operating Budget available at LebanonNH.gov/Budget

City Manager Shaun Mulholland spent a lot of time reviewing, explaining, and giving examples of the Proposed 2024 Annual Budget for the City of Lebanon in order to provide the Council with what they need to be able to make the decisions they will have to make. His review included the following:

Strategic Budgeting

Budget Objectives:

Opportunities:

Challenges:

- Housing
- Childcare
- Inflation
- Climate change
- Infrastructure deficiencies
- UFB depletion
- Debt management

Pending Challenges:

- Return of Airport Subsidy 2025
- Revaluation of Properties 2025
- Losing ground on the pavement management program.
- Losing ground on sidewalk repair/maint.
- Staffing needs-DPW, HS, RAP, Police and Fire.
- Growing list in the Capital Improvements Program that remain unfunded.
- Landfill-PFAS and cell expansion.
- Water-Distribution and Treatment System for new well.

City Manager Mulholland noted he has not added any additional staffing in the budget. Requests were made and he denied all of them in all departments. The only difference is that in the Fire Department, there was a request to take one of the Community Nurse positions from part-time to full-time, and that will be funded by the Towns of Grantham and Enfield in the amount of an additional $3K. This is the only change in staffing that he included in the budget due to tax rate increases.

How your dollars are spent:
Out of every dollar, the below depicts what is spent in tax dollars:

School State: 7 (7%) Municipal: 37 (37%) County: 6 (7%) School Local: 49 (49%)

City Manager Mulholland spoke about the RAND case that the City is a party to. That would be $3.9M of property taxpayer dollars that would potentially be paid to Concord for their proposed Education Trust Fund, with no idea of what might come back to Lebanon. Whatever doesn't come back, the City will have to raise again to be able to provide the same level of education here in the City. This bears paying very close attention to in the future, noting he knows there is a bill in front of the State Ways & Means Commission to do just that (have the local state-wide education property tax be sent to the State).

<u>Consumer Price Index & Tax Rate Change-New England Regions</u>

Year	CPI Jun-Jun	Tax Rate	Change in T Rate
2018	2.2%	$10.97	2.5%
2019	1.9%	$11.25	2.5%
2020	0.4%	$9.96	-11.5%
2021	4.0%	$10.06	1%
2022	7.9%	$8.62	*2.5%
2023	1.8%	$8.97	4.1%
TOTAL Change	**18.2%**		**12.6% (does not include 2020)**

The above graph shows the economy is growing faster than City Government is.

Tax Rate Factors (All the below determines Tax Rate):

- Expenditures
- Revenues (Other than Property Taxes)
- Fund Balance Used to Reduce Tax Rate
- Assessed Valuation
- Overlay (Offsets Tax Abatements)
- War Service Tax Credits

Financial Projections:

	2024	2025	2026	2027	2028
Tax Base Growth	.25%	.25%	.25%	.25%	.25%
Unassigned Fund Balance	$9.6 million	$8.7 million	$8 million	$7.5 million	$7.3 million
UFB % of Budget	23.8%	20.5%	17.8%	15.4%	14.1%
UFB Used	$2.8 million	$2.6 million	$2.4 million	$2.2 million	$1.9 million
Surplus	$1.5 million	$1.5 million	$1.5 million	$1.5 million	$1.5 million
General Fund Budget	$40.7 million	$42.7 million	$45.3 million	$49.1 million	$52.1 million
T Rate Chg.	**4.6%**	**7%**	**8.3%**	**11.8%**	**8.4%**

Tax Base Growth: This is new properties/structures coming online that add to the tax base and does not include existing properties that are appreciating in value. We have lowered our expectations in the growth in the tax rate. He suspects the .25% is going to change but does not know when but expects there will be an increase in building structures. When this does occur (outside of the TIF District) this will help the bottom line.

Unassigned Fund Balance: Shows the draw down based on the present projections. In the past, the plan was to build up the Unassigned Fund Balance which allowed the City to deal with Debt Service spikes, which is why the tax rate has remained relatively low in terms of a tax increases in the past. Most of these funds are now gone and we have not been replenishing this fund as we hoped to.

UFB% of Budget: Our present policy is 19-24%, but we are drawing this down to a range so that by 2025 we will not be at those (UFB) levels. The City Manager proposed the new range be from 15-19%, which is more in line with the GFOA Standards and any amounts over this could be used to deal with capital and pay-as-you-go type projects.

UFB Used: This amount is trailing down. There are some assumptions that are not planned for and explained some of the potential assumptions that will bring in or take away revenues.

Surplus: This shows the $1.5M in additional revenues that we are hoping/planning for. If we do not make this mark, this will deplete the Unassigned Fund Balance, so there are some cautionary things that we need to pay close attention to.

General Fund Budget: This makes assumptions that in 2027, for at least half the year, we will be funding all of the firefighter positions that we will be applying for in their SAFER Grant plus the added costs that will go along with that. It also makes the assumption that in 2025, we are going to be taking a cut in the tax rate due to the revaluation process that takes place every couple of years. This projection does not include any new positions, other than the firefighter positions that were talked about.

Councilor Simon requested the reason of why we are required to do the revaluation. City Manager Mulholland noted that DRA requires us to be within a certain range, so whatever the Market Value is for a home (i.e., you build a $100K home and the Market Price of that home has been devalued and is now $50K, but the City is still taxing that property at $100K, that is unfair taxation; if that same home is selling for $150K, then the City is not taking in the right amount of property taxes.) So, if you bought a house 10 years ago and it is valued at a much lower rate, it is important to have a revaluation, so everyone is treated fairly.

Assistant Mayor Below noted this is in our State Constitution and spoke about a case that was brought before the court regarding consistency in (property) valuations, which is relevant in the State-wide property tax element. Essentially, the State lost that case and as a result, in order to address the court decision, the Legislation created a Standards Board that worked with DRA to develop more criteria and some of this was codified into law. That's why there are these statistical measurements and once you are out of bounds you are required to reevaluate.

Tax Rate Change: These Tax Rate Changes are not only taking place in Lebanon, but are state-wide.

Mayor McNamara noted that if you total the Tax Rate Changes (from 2023-2028) it adds up to 40% and he knows this is going to be a real challenge for two particular groups of folks (1. Those on fixed incomes, and 2. Younger folks wanting to get into the (housing) market.) We have some tough years ahead. While we have a great moving economy, the downside of this is the increased cost of housing and the decreased availability of housing. He gave examples of people who have moved to another state with more affordable housing. His concern is that the City will lose some talent because of the cost of housing, noting that other than being citizens there is not much at the City level that we can do with the taxation issues in New Hampshire.

More discussions took place regarding the housing/development issues in Lebanon and the willingness of, and the efforts taken by, the City Council to tackle this situation.

Change in Municipal Tax Rates from 2019 projected out to 2028: ***Graph on page 136, agenda packet.***

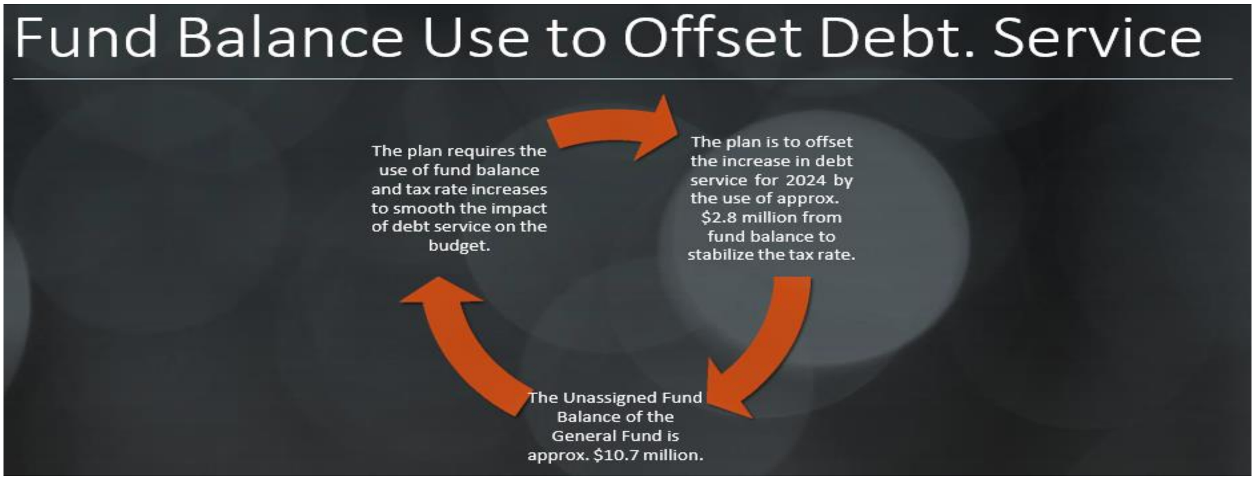
NOTE: The tax rate for 2024-2028 is projected based on a set of variable assumptions. The actual rate will be set in the fall of each year.

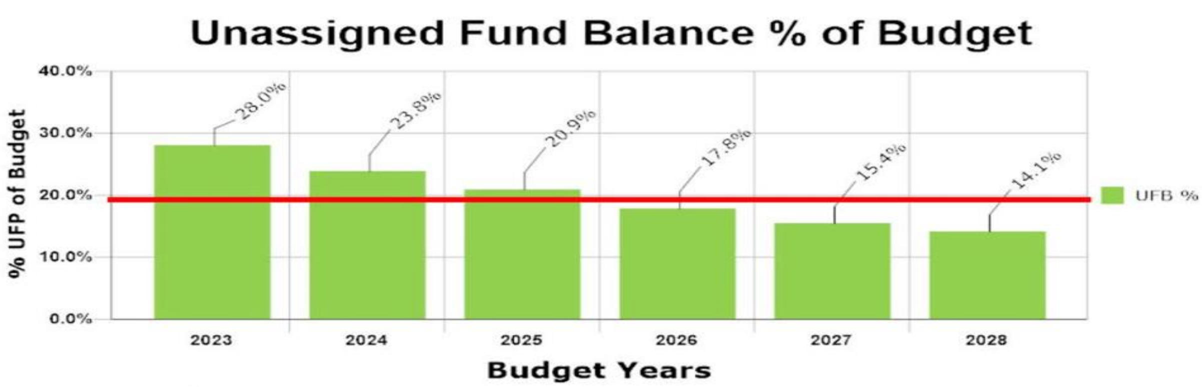
UNASSIGNED FUND BALANCE POLICY

Adopt Revised UFB (Unassigned Fund Policy)

- NH Dept. of Revenue Administration, Government Finance Officers Assoc. and National Advisory Council on State & Local Budgeting guidance.
- 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 regular general fund operating expenditures."

-Recommend revision of policy to establish a new range from **15%-19%** from the present 19%-24%.





NOTE: The red line represents the present minimum standard of 19% of Unassigned Fund Balance as a % of the budget. The % beyond 2023 is projected based upon a set of variables.

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

IN SUMMARY:

- The 2024 Total budget is **15%** higher than the 2023 Budget.
- The 2024 total projected revenues increase by **15.1%**.
- The 2024 General Fund Budget is up by **5.8%**.
- **4.6%** projected increase in the 2024 tax rate.
- **7.2%** increase in Water rates and **5.2%** increase in Sewer rates.

2023 Budget

- 4.1% increase in Tax Rate
- 8% increase in Water Rates
- 7.2% increase in Sewer Rates
- Total Budget **$99,841,240**
- Without capital $58,360,700

2024 Budget

- 4.6% increase in Tax Rate
- 7.2% increase in Water Rates
- 5.2% increase in Sewer Rates
- Total Budget **$114,779,210**
- Without capital $61,442,260 **(5.2%)**

General Fund Budget Change:

$38,460,840

2023

2024

$40,702,460 5.8% Increase

City Manager Mulholland reiterated again that no new positions were added in the 2024 budget increase. He will provide the cuts he made in the budget to the Council. There is a need for every single (staff) request and documentation for those requests have been made, but in his view he could not afford any one of those, including the ones in the Fire Department even though there is clearly a need to add those positions and further explained his reasons.

Wage Increases (COLA):

2.2% General Wage Increase (COLA)

3% Merit or Step Increase (for those eligible)

Consumer Price Index for Northeast is **2.2%** (6/30)

2024 Budgetary Impacts (Without CIP)

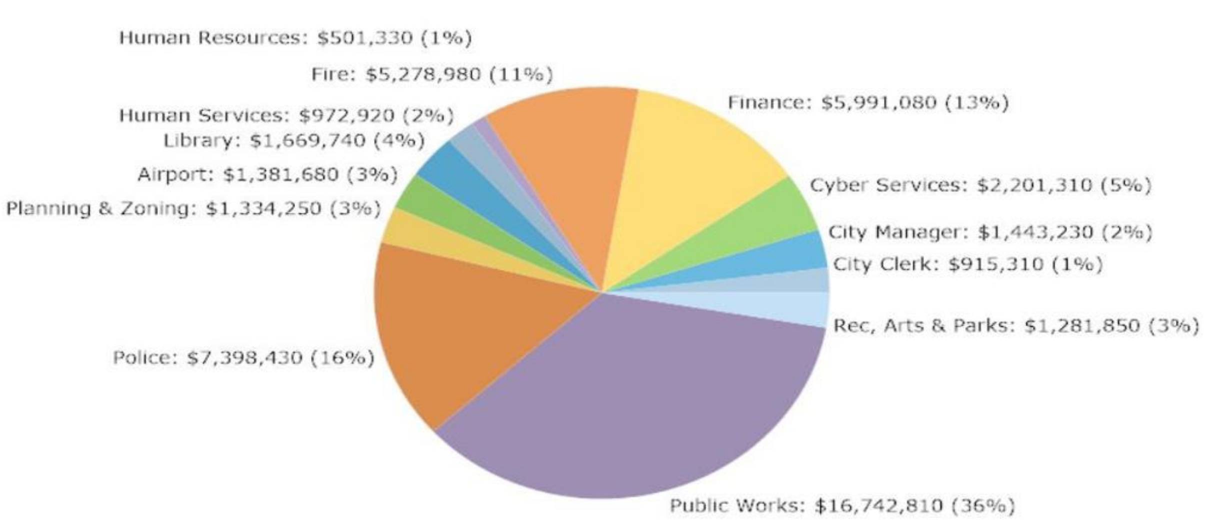
The 2024 Budget represents a cost increase of **5.2%** equal to **$3,081,560.**

The total impact of cost increase drivers as listed on subsequent slides is equal to **$3,097,340.**

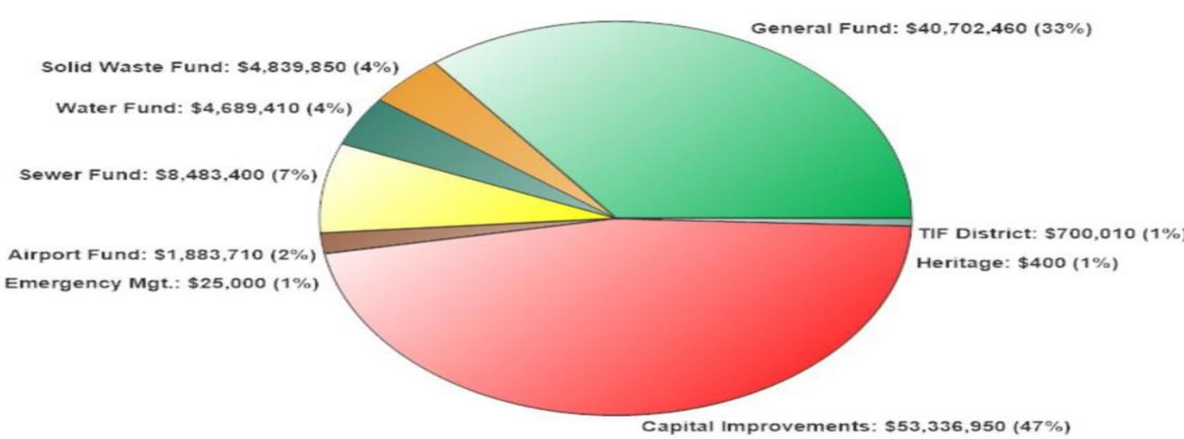
Cost Increase Drivers:

- Wages $1,060,860 (2.2% GWI & 3% Merit/Step)
- Health 3.9%/Dental 4.7% Ins. cost increase $447,740
- Retirement/WC/UC/ FICA/Medicare $87,000
- Human Services - $487,190
- Wastewater Repairs/Maint $324,300
- Water Transfer to CRF $241,200
- Library Repairs/Maint $54,160
- DPW Vehicle Leases $192,890
- DPW Repairs Sidewalk/Signals $202,000

Operating Budget by Department:



2024 Budget by Fund:



City Revenue Impacts vary by Source: Property Tax; MV Registrations; Rooms & Meals Tax; Development Fees; Utility Users Tax/Franchise Payments, and Recreation and Fee Programs.

State Revenue Impacts:

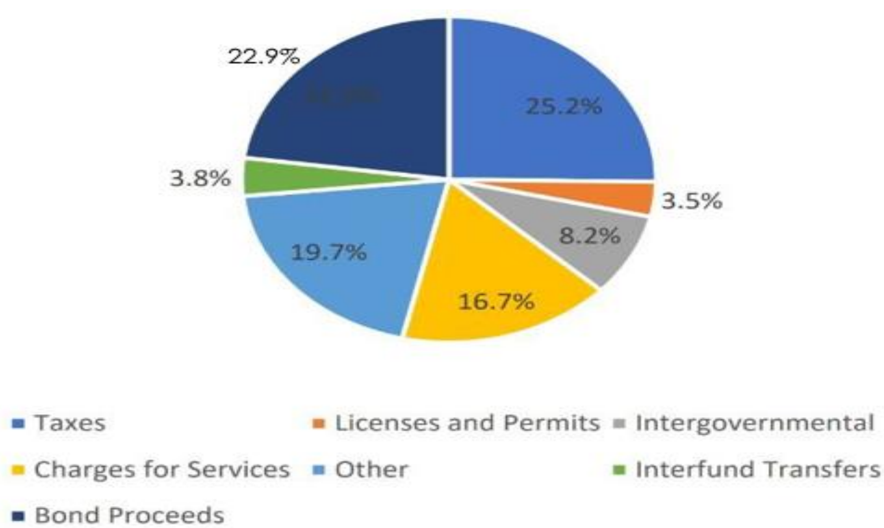
- No funding this year to offset retirement system
- Municipal Bridge Aid & Highway Block Grant funding
- Grants relative to Housing
- Rooms & Meals Tax Distribution

Payment in Lieu of Taxes (Pilot)

- Alice Peck Day Hospital owes approximately $919,713 in property taxes
- PILOT agreement presently under negotiation

Revenue Projections :

- Taxes- 0.76% Increase
- Licenses & Permits – 6.19% Decrease
- Intergovernmental- 61.4% Decrease
- Charges for Services- 8.5% Increase
- Miscellaneous Sources- 262.9% Increase
- Interfund Transfers- 10.9% Decrease
- Bond Proceeds- 95.8% Increase



Council Discussions:
Assistant Mayor Below questioned the assumption about the growth in the City and felt the .25% increases are historically low. The City Manager was predicting a slowdown in development across the 4-5 years and was wondering if this (calculation) was doubled to .50% per year how much of an impact this would have, assuming the .25% was real growth and not just an increase in values.

City Manager Mulholland expected this will change, noting there is so much demand right now it has to turn around, but he just doesn't know when or how much. He spoke about the TIF Districts construction, which does not affect the General Fund at all for now. His plan is that once they get the third building up, we will be able to meet the Debt Service and we should close that TIF District down, which will allow funds to flow to the General Fund, School District, etc. TIF had a 5-year plan last year so where that stands and how the economy affects this is unknown at this time and further explained his reasons.

Mayor McNamara noted that one thing we need to be aware of is that at some point in time we will run out of infrastructure areas to add new construction, noting municipal infrastructure now is minimal and unless we want to consider expanding municipal infrastructure, we will reach the limit to grow and will have to reach into a redevelopment situation. We do have a very small area to work with here, so once the Woolen Mill gets reconstructed, and once Mt. Support Road is built out, we do not have a lot of other areas for new development, which may cause things to slow down significantly. We have no plans to expand the Airport Industrial Park and he does not think we will want to go further down Route 12A. We are not out of land yet, but we are getting there. We have been fortunate that the tannery closed down when it did because we were able to get that wastewater treatment plant constructed, which provided us with excess capacity that we have been able to utilize, but at some point, we may run into some restrictions there, too. When he thinks about the future, he thinks about continuing to be dependent on growth of the tax based on new construction and going forward felt this would be slowing down and does not know where we go from here.

Councilor Sykes asked if a recent analysis of revenues from other sources (i.e., fees, etc.) had comparative studies done to see if there is any room for growth.

City Manager Mulholland hoped the (State) Legislature will respond to that in a way that would ensure we at least will get the same local vehicle registration fees and if that is not the case, we will have less revenue outside property taxes available to us. He and Councilor Liot Hill tried to testify on the occupancy bill and got nowhere. This would have brought in $400K-$700K of additional money into the City, which would have provided revenue from another source instead of this heavy reliance on one main source of revenue (property taxes) that disproportionally impacts people.

Mayor McNamara also noted that if they (State Legislature) would increase indirect things like State support for transportation, this would allow communities to back off a little bit (on property taxes). We are also continuing to look at increased landing fees at the Airport. These things all together can help a little bit here and there, but we need to start being increasingly creative in how we think about the little things.

City Manager Mulholland also spoke about contracting a weather service that will be able to provide the City with close to real time information about roads (i.e., when they freeze, or it snows) to reduce bringing staff in and having them waiting. This will reduce the cost of overtime and help save money on sand and salt which could potentially save the City thousands of dollars. He also spoke about the City's volunteers and what they have done to help save the City some money (i.e., grant writing, work by a volunteer who saved the City thousands of dollars in EV costs).

Councilor Simon concurred that we are all in this together and one of the things that our citizens can do is start talking to other citizens in other communities, friends, and family and explained his reasons (i.e., sales tax). If we can't get the State to hear what a few communities are being faced with, then we are just in the same boat of spiraling downward. Let's be honest, 90% of the State holds 10% of us hostage from trying to do anything we can to provide services.

Councilor Sykes wanted to hear the City Manager explain why the tax rate burden shifted dramatically from commercial to residential at the last revaluation. The City Manager stated that while commercial properties are increasing in value, they are not increasing in value at the same rate that residential properties are because of the demand for residential properties and further explained his reasoning.

Mayor McNamara also noted that you cannot have a different rate for commercial properties and a different rate for residential properties in the State of New Hampshire.

Assistant Mayor Below thought this could be done and this question has been presented to the Supreme Court, but the Legislature did not enable it.

Mayor McNamara noted there is very little that a municipality in New Hampshire can do if it is not enabled by the State Legislature. This category of change of messing with the tax rates falls into a category. People automatically assume that cities/towns can do whatever they want to do, but we can only do what the State Legislature allows us to do. Some states have two rates: an industrial/commercial rate and a residential rate. When folks come here, they do not know the State has only one rate that applies to everybody.

More discussions took place regarding commercial vs. residential tax rates and how commercial properties actually cost the City more than residential properties because of the services they demand (i.e., police/fire services, etc.).

3. ADJOURNMENT:

The meeting was adjourned at 7:18 PM.

Respectfully submitted,
Dona E. Gibson
Recording Secretary