

ADVISORY BUDGET COMMITTEE
MEETING MINUTES
6:00PM Town Office Meeting Room
Monday November 28, 2022

In attendance:

ABC:

- Community Members: Chair Patrick Fine (Via Zoom), Lynn Arnold, Linda Tanner
- Board of Selectmen: Josh Trow (Chair), Sue Gottling (Vice Chair), Jeremy Hawthorne and Carol Wallace
- Department Heads: Scott Hazelton, Mindy Atwood, Steve Bourque, David Bailey, Police Chief E. Niell Cobb, Fire Chief John Galloway, Cariann Zandell, Frank O'Connor (interim Finance Director) and Joshua Boone

Other:

- Shannon Martinez-Town Manager, Allyson Traeger-Executive Assistant
- Meeting began at 6:15 pm with ABC Chairman Patrick Fine beginning to review the agenda and goals to accomplish. He spoke on the goal to gather recommendations to inform everyone on the next steps to move the budget to finalization.
1. Budget Discussion by Frank O'Connor (interim Finance Director)
 - a. Tax Rate Setting
 - Town Manager Martinez started with the fact that the tax rate was set, and Sunapee was further up on the list of towns to receive the tax rate, so they are grateful to have it out. The tax rate came in at \$13.99, the town portion came in at \$0.10 less than anticipated and explained that the only portion of the tax rate that the budget conversations affect is the \$3.35 portion of the total tax bill. The school tax rate is governed by a different set of regulations.
 - Frank O'Connor presented the breakdown of each tax rate, focusing on the assessed value of the town with utilities which is what impacts the rates, but not all calculations use the value with utilities. State education uses the valuation without utilities, all other valuation amounts are calculated with utilities. For the Town of Sunapee, the tax rate is made up of the town tax effort plus three other components: Local Education of \$9.6 million, the County tax effort of \$4.2 million, and the Statewide Education Property Tax (SWEPT) of \$1.8 million. The total of these amounts composes the total required tax effort which is divided per thousand to reach the tax rate for Sunapee. The Town budget only affects the municipal rate which is currently set at \$3.35. This amount is derived by taking the total approved budget (the town appropriations) of \$9,661,725 less \$4,241,064 of estimated revenue, less

\$500,000 that was used from the fund balance in the General Fund to buy-down the tax rate. This final number is then divided per thousand.

- Selectmen Wallace asked about the Overlay line of \$47,774. Mr. O'Connor explained that it is meant for the anticipated tax abatements.
- Mr. O'Connor acknowledged the confusion regarding the DRA 2023 state education tax. The 2023 NH assessed value is what is used to determine the 2023 state education tax rate. The Department of Revenue Administration is projected to increase Sunapee's rate by 26.22. This means that Sunapee will pay more to SWEPT because the increase in the valuation of the town's assessed property has outpaced the rate of increase in the state. Based on what the DRA published, there is a 38% increase of the State Education Tax effort.
- Joshua Boone, the Town Clerk and Tax Collector, explained that in FY 22 the SWEPT was set at \$263,098,498, which included a one-time \$100 million payment from the State due to a budget surplus. In FY 23, the SWEPT will not receive this payment and will return to the \$363,786,980 level, which accounts in part for the 38% increase. This equates to a \$0.20 increase in the tax rate statewide. Essentially the State is returning to the normal tax effort that existed prior to the COVID pandemic.
ABC Chairman Fine asked about any movement of legislature to extend the relief of 2022. State Representative Linda Tanner explained that it was a one-time payment due to an unexpected surplus in the State budget.
- Joshua Boone clarified the anticipated State Education Tax Rate for 2023 is \$1.44, 20 cents higher than the current \$1.24. He described how a concerned citizen believed their tax bill was incorrect due to the recent DRA Tax Rate posted for 2023. He explained that the DRA Tax Rate that was published recently was for the year 2023 and differs from the tax rate that was sent for the year of 2022. The current State Education Tax rate is calculated based on the 2022 Education Tax of \$1,812,575 divided by the Assessed Valuation without Utilities which is \$1,456,025,412 and then divided per thousand.
- It was clarified that the State Education Tax Rate recently published will be worked into the budget for FY 2023 and be used in the budget discussions next fall. It does not apply to the current budget being discussed.

b. Fund Balance

- Frank O'Connor spoke about the history of the Fund Balance from 2018 to 2021. During this period, the Town retained a minimum balance of 11-15% of total budgeted expenditures in General Fund to ensure the Town had resources to cover its expenses, particularly in the two "lean" periods of the year before property taxes are collected.

- Selectboard Chairman Trow explained that the town had a rule of thumb to hold approximately two funding to cover two months of expenses.

- ABC Chairman Fine noted the significant increase in the General Fund Balance between 2020 to 2021 to 15.57%

- Frank O'Connor explained that the Fund balance is affected by the flow of revenues and expenses. Mr. Fine asked if this was due to the Town underspending the budget. Selectboard Chairman Trow answered yes and added that the Town has historically tried to be conservative with maintaining an adequate balance in the General Fund.

- Town Manager Martinez mentioned that the department needs to have a better understanding of how large a balance the town should maintain on hand to be protected in case an emergency does occur. She noted that the ABC needs to make a recommendation for how much of the general fund should be used to pay down the tax rate.

- Frank O'Connor highlighted that average monthly expenditure (county, education, town, SWEPT) is \$2,000,000. Average monthly revenue during the months that property taxes are not collected, revenue averages \$566,000. The months that have the lowest cash on hand are April/May and November/December before property taxes come in. In the past two years the Town's cash on hand to meet its obligations have fallen to about one month of expenditures.

- Selectboard Chairman Trow questioned whether the focus should be on the end of the year when the books are closed for the fiscal year or whether there should be a minimum of cash in hand to cover two months of expenditures every month.

- ABC Chairman Fine asked if the town uses a line of credit during times of low cash flow? Town Manager Martinez responded that the town has been considering putting in place an open line of credit so that it is prepared should the need arise, but that the Town has not drawn on a line of credit in recent years.

- John Augustine (Via Zoom) mentioned that the town currently collects \$6 million in school related property taxes that it then pays out in \$1 million monthly increments. Given the large amounts of funds that are held through much of the year, how is it possible that we are unable to make the County Tax bill? Town Manager Martinez responded that the finance team has analyzed when money has gone out. Some confusion about funds availability results from the amount of non-committed balance (the money available for use) versus committed balances (funds that have already been obligated for an expenditure and are therefore not available to meet other costs).

- Next ABC meeting set for December 12, at 5:00 pm.

Meeting was adjourned by ABC Chairman Fine at 7:05 pm

Minutes reviewed by ABC Chairman Fine 12/15/2022

UPCOMING MEETINGS:

- December 12th at 5:00 pm
- Tentative December 27th at 5:00 pm
- Public Hearing January 10th
- Deliberative Session February 7th



TAX RATE

PRESENTATION FOR THE BOARD OF SELECTMAN



BIG PICTURE – MUNICIPAL TAX RATE CALCULATION

| Jurisdiction | Valuation | Per 1,000 | Tax Effort | Tax Rate |
|--------------------------------------|--|-------------|---------------------|----------------|
| | Calculation: Tax Effort divided by Per 1,000 | | | |
| Municipal | \$1,481,348,412 | \$1,481,348 | \$4,957,635 | \$3.35 |
| County | \$1,481,348,412 | \$1,481,348 | \$4,276,301 | \$2.89 |
| Local Education | \$1,481,348,412 | \$1,481,348 | \$9,646,153 | \$6.51 |
| State Education | \$1,456,025,412 | \$1,456,025 | <u>\$1,812,575</u> | <u>\$1.24</u> |
| | | | | |
| Total Municipal Tax Effort | | | \$20,692,664 | \$13.99 |
| War Service Credits | | | <u>(73,500)</u> | |
| Property Tax Commitment | | | \$20,619,164 | |
| | | | | |
| Assessed Valuation with Utilities | \$1,481,348,412 | | | |
| Assessed Valuation without Utilities | \$1,456,025,412 | | | |

MUNICIPAL ACCOUNTING OVERVIEW

| Description | |
|--------------------------------------|--------------------|
| Appropriations | \$9,661,725 |
| Less: Revenues | (4,241,064) |
| Less: Fund Balance Voted Surplus | (84,300) |
| Less: Fund Balance to reduce tax | (500,000) |
| Add: Overlay | 47,774 |
| Add: War Service Credit | <u>73,500</u> |
| | |
| Net Required Local Tax Effort | \$4,957,635 |

STATE EDUCATION TAX RATE

| | 2022 | 2023 | Change | % Change |
|------------------------------------|-------------------|-------------------|------------------|----------|
| NH Assessed Value | \$213,901,217,659 | \$252,629,846,945 | \$38,728,629,286 | 18.11% |
| Sunapee Assessed Value | \$1,473,638,425 | \$1,860,051,495 | \$386,413,070 | 26.22% |
| Sunapee as a % of NH | 0.69% | 0.74% | 0.05% | 6.87% |
| State Education Tax Effort | \$263,098,498 | \$363,786,980 | \$100,688,482 | 38.27% |
| Sunapee State Education Tax Effort | \$1,812,575 | \$2,678,474 | \$865,899 | 47.77% |
| Sunapee as a % of NH | 0.69% | 0.74% | 0.05% | 6.87% |

Increase in Sunapee's % of NH x Increase in State Education Effort = 106.87% x 138.27% = 147.77%

FUND BALANCE - HISTORY

| | 2018 | 2019 | 2020 | 2021 |
|-----------------------------|--------------|--------------|--------------|--------------|
| | (unaudited) | (unaudited) | | |
| General Fund – Fund Balance | \$2,161,223 | \$2,224,091 | \$2,390,070 | \$3,119,183 |
| Total Tax Effort | \$19,113,468 | \$19,839,357 | \$20,057,441 | \$20,017,804 |
| Percent | 11.31% | 11.21% | 11.92% | 15.58% |

CASH FLOW – LIQUIDITY CONCERN

| Date | Cash in Bank – General Fund |
|--------------------------|-----------------------------|
| April 2021 | \$1,883,544 |
| May 2020 | \$1,516,391 |
| For Non-Tax Bill Months: | |
| Average Monthly Inflow | \$566,000 |
| Average Monthly Outflow | (\$2,000,000) |
| Average Net Outflow | (\$1,434,000) |

- Timing is critical for cash flows.
- For the past two years in the month before collecting tax bills there was not more than one month of cash on hand.

FUND BALANCE - IMPACT TO TAX RATE

| Tax Rate | As Proposed - 14.33% | Target 13% | Target – Flat Rate – 13.04% |
|--------------------------------------|-----------------------------|--------------------|------------------------------------|
| Appropriations | \$9,532,987 | \$9,532,987 | \$9,532,987 |
| EE Retention | 20,000 | 20,000 | 20,000 |
| Less: Revenues | (4,528,868) | (4,528,868) | (4,528,868) |
| Less: Fund Balance to reduce tax | (750,000) | (1,020,000) | (1,010,000) |
| Add: Warrant Article | 835,065 | 835,065 | 835,065 |
| Add: Overlay | 30,000 | 30,000 | 30,000 |
| Add: War Service Credit | <u>85,000</u> | <u>85,000</u> | <u>85,000</u> |
| | | | |
| Net Required Local Tax Effort | \$5,224,184 | \$4,954,184 | \$4,964,184 |
| Valuation | \$1,481,348,412 | \$1,481,348,412 | \$1,481,348,412 |
| Tax Rate | \$3.53 | \$3.34 | \$3.35 |
| FY22 Rate | <u>\$3.35</u> | <u>\$3.35</u> | <u>\$3.35</u> |
| Increase | \$0.18 | (\$0.01) | \$0.00 |
| | 5.37% | (0.003%) | 0.00% |