



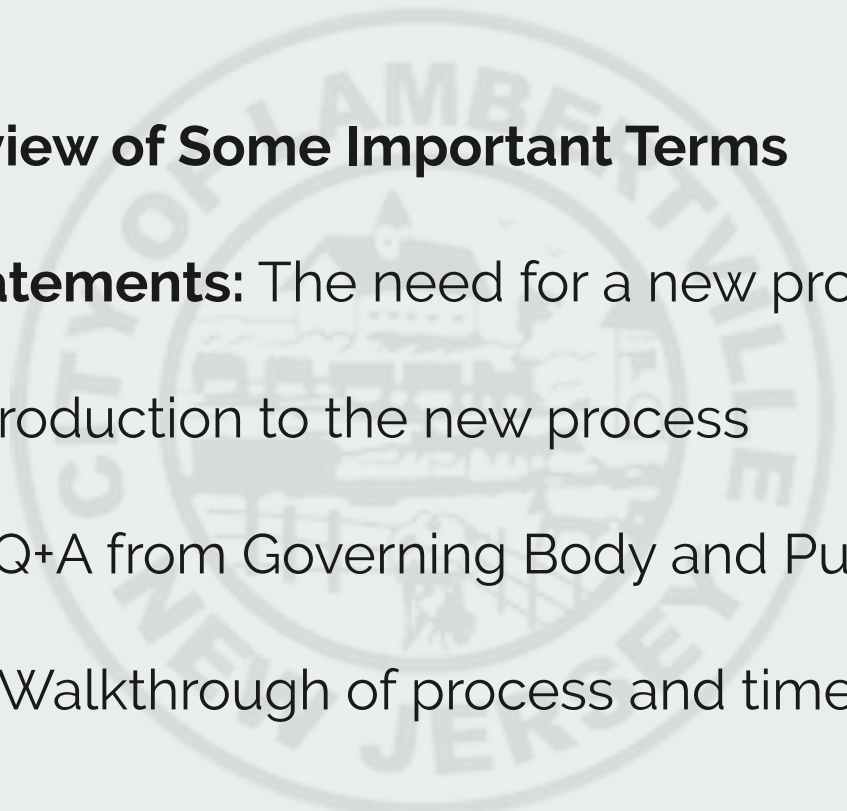
City of Lambertville

2020 Budget & Process Introduction

August 6th 2019

Agenda



1. **Quick Overview of Some Important Terms**
 2. **Problem Statements:** The need for a new process
 3. **Solution:** Introduction to the new process
 4. **Discussion:** Q+A from Governing Body and Public
 5. **Next Steps:** Walkthrough of process and timeline
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1. Quick Overview of Some Important Terms



Before we start, it's important to note that although there are a number of areas where exact figures are used, there are also several areas where estimates must be used, or reasonable assumptions made.

It's also important to keep in mind this is just the first step to the comprehensive budget process we are embarking on together. The analysis contained in this document is merely the starting point for the 2020 budget process, and as the budget process begins, and ultimately concludes, we will have a much more detailed and thorough evaluation of the City's finances and future forecasts, as well as specific policy and program recommendations for current and future plans.

1. Quick Overview of Some Important Terms



Operating Budget. This is the “current fund” budget, which raises revenue through taxes and other means to pay for expenses incurred in this year. Examples would include employee salaries.

Capital Budget. This is for expenses that typically last at least five years. Instead of being paid for by taxpayers in the year the item happens to be purchased, the cost is spread out over taxpayers who will actually use the item. This is typically done for vehicles, infrastructure, buildings, long-term equipment, etc.

Bond. A term used in a sort of catch-all way to describe the legal process by which a municipal government borrows money to fund an item in the capital budget. Can take the form of Bond Anticipation Notes (BANs) (short-term debt) or typically General Obligations Bonds (longer term debt). Money that is borrowed can typically only be spent on that item and requires interest payments to the lender, which are contractually obligated same as a loan or mortgage.

Debt Service. The amount of money per year that is required for the municipal government to pay towards previously borrowed (bonded) money. This is basically your credit card or loan statements each month.

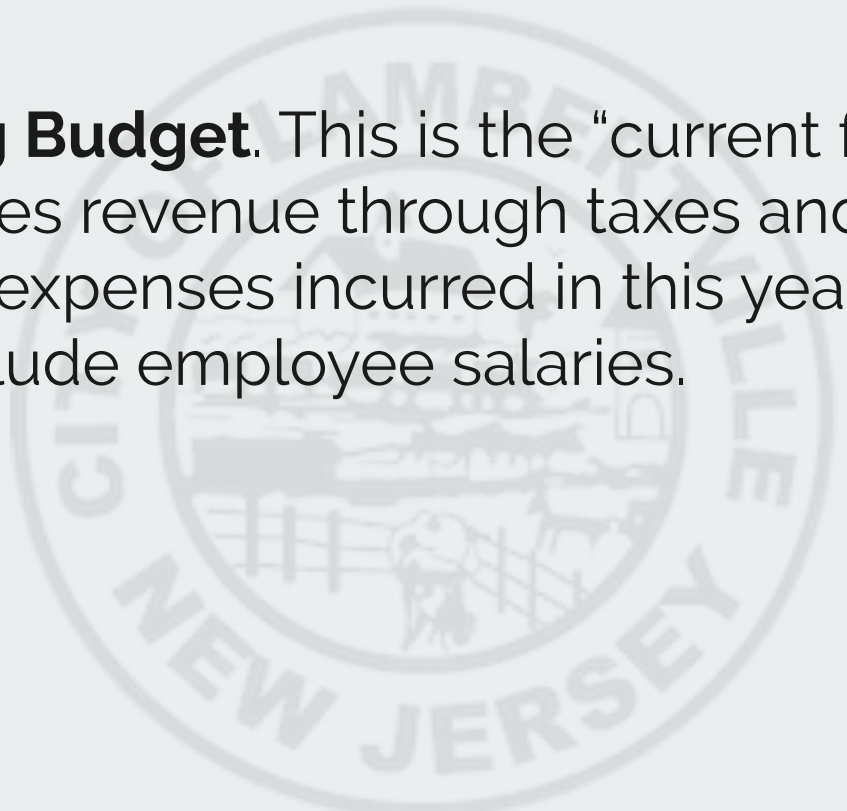
Structural Deficit. This is when your annual budget, structurally (meaning built in for every year, not one-time) has more money in costs than in revenues, resulting in a gap that requires some action to fill before the year close-out. Similar to if you took out a car loan that had monthly payments more than you can afford each month.

Fund Balance or Surplus. Basically, the amount of money leftover at the end of the year if you budgeted more than you actually spent. Typically a certain amount of this is a requirement so that you regenerate/have cash on hand.

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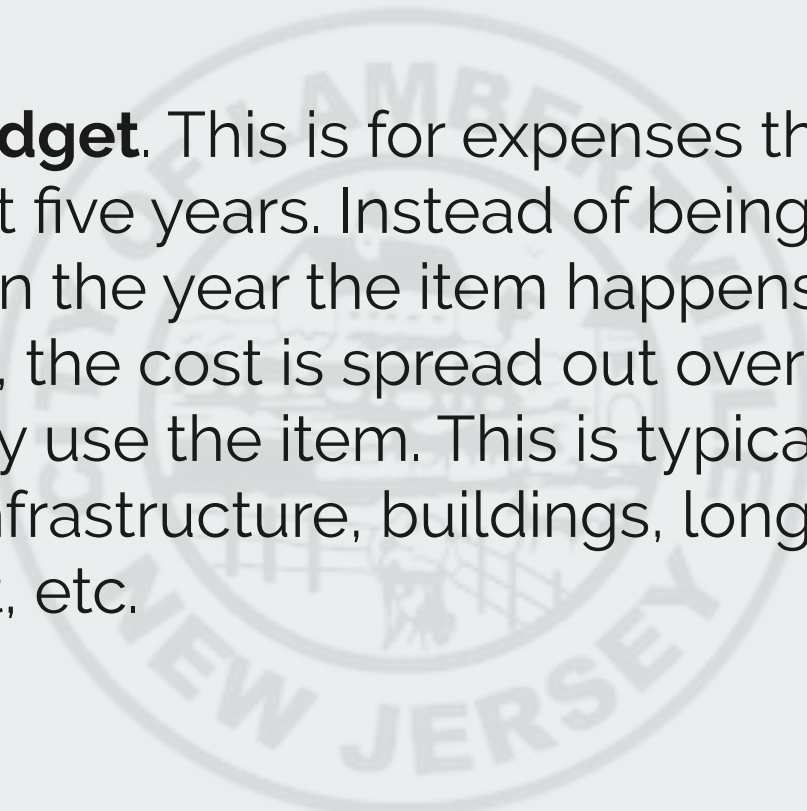
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1. Quick Overview of Some Important Terms

The primary intention of separating operating and capital accounts is to put the cost of any particular item on the actual taxpayers who would be using it.

	Operating	Capital
Example item	Salary for a FT employee	Road resurfacing
Who funds it?	Taxpayers in the current year fund 100% of the cost, so that 100% of the money that comes in from taxpayers is spent that year	Taxpayers over the course of 10 years split the cost of the expense plus the interest of borrowing the money, such that (simplistically) 10% is paid each year for ten years

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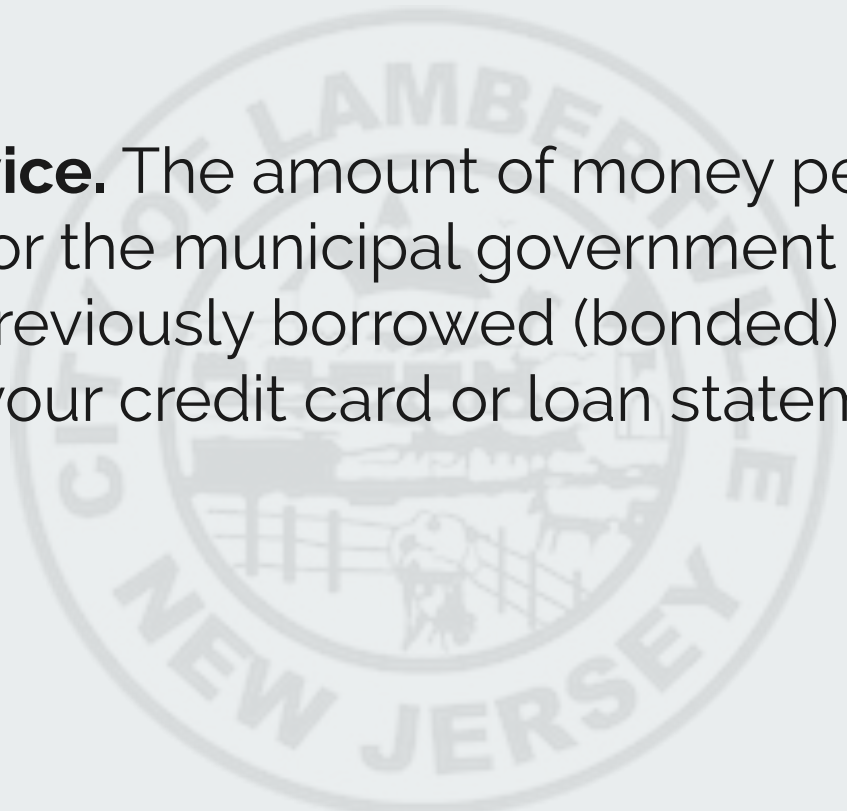


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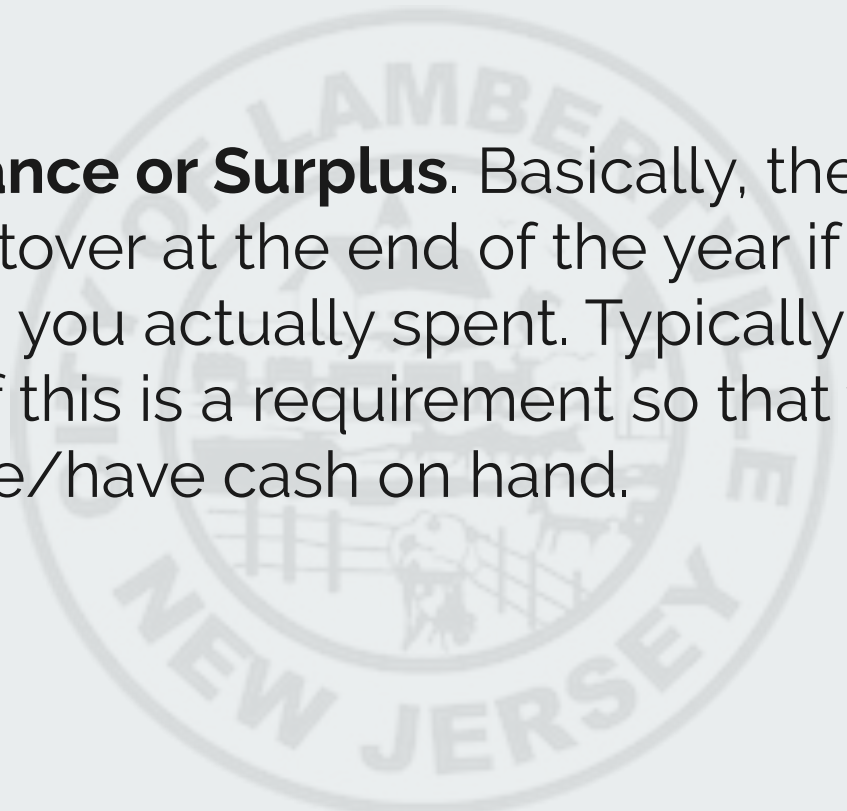


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1. **Problem statement(s):** Need for a new process - why?



1. Process for generating “surplus” or fund balance
2. Total amount of debt accrued
3. Process for generating debt service funding
4. Lack of certain/necessary items in operating budget
5. Lack of capital planning and project budgets
6. Not keeping up with rising costs
7. Existence of a structural deficit

1. **Problem statement(s):** Need for a new process

Process for generating “surplus” or fund balance

A surplus, or “fund balance,” which can be considered a “rainy day fund” or “savings,” that becomes available in the subsequent year, is typically generated through several mechanisms. Often the primary mechanism is by depositing unspent money from accounts in your operating budget at the end of each year into this account. This allows funds to be regenerated every year on a somewhat predictable basis, and for the total savings to grow without any tax impact, as long as spending is kept under control each year.

In Lambertville, very little money, almost zero, is regenerated this way. Rather, the City relies more so on a “Reserve for Debt Service” account, which is replenished by borrowing too much money and using that leftover to populate this account on an ad-hoc basis.

There are a number of challenges which is this method creates, which we will be covering.

1. **Problem statement(s):** Need for a new process



Total amount of debt accrued

For several reasons, for example, using debt to help create a quasi-fund balance, and because of lack of budget controls or process on capital projects, the City has accumulated too much debt, especially over recent years. Because of this, the City's debt service payments - the contractual amount of money that the City must pay each year on its debt - has grown to the point where it's nearly a quarter of the budget, which is more than five times the best practice amount.

More money was borrowed to pay for the existing debt, keeping the City in a cycle where debt needs to be taken to pay off other debt, and where a number of necessary expenses can't be placed in operating budget because there is no room under a "no tax increase" ideology to do so, and the budget is so razor thin nothing unexpected can be accommodated.

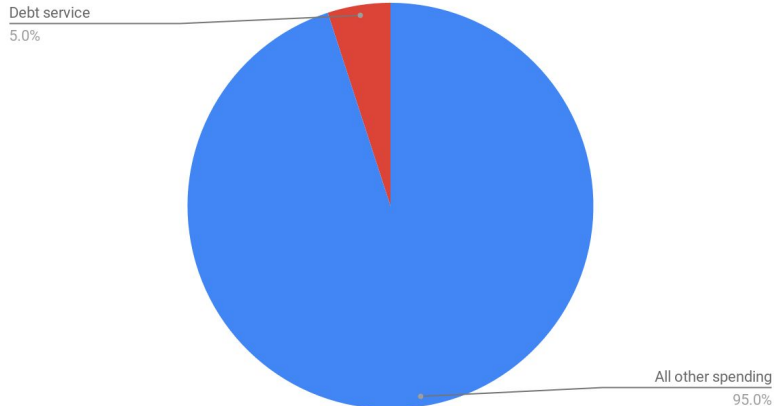
To help put it in perspective, in 2019, the City paid approximately \$300,000 (30%) more in debt service than for all Lambertville Police salaries and wages.

1. Problem statement(s): Need for a new process

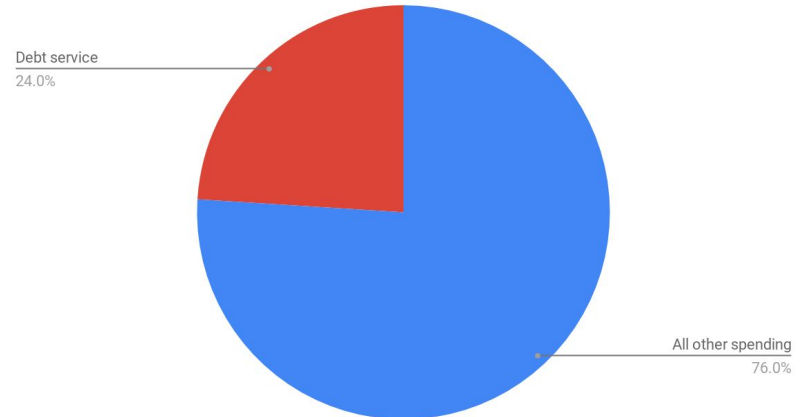
Total amount of debt accrued

This shows the amount of our annual budget dedicated to debt service, compared to commonly accepted best practices.

Best Practice for Percent of Total Annual Budget for Debt Service



City of Lambertville Percent of Budget for Debt Service as of Jan 2019

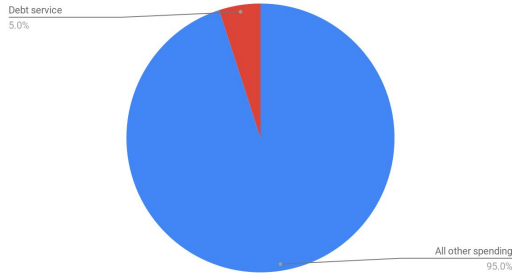


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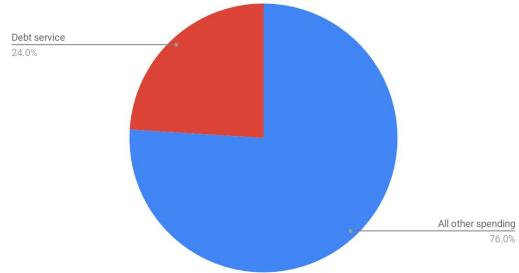
Total amount of debt accrued

This shows the amount of our annual budget dedicated to debt service, compared to commonly accepted best practices.

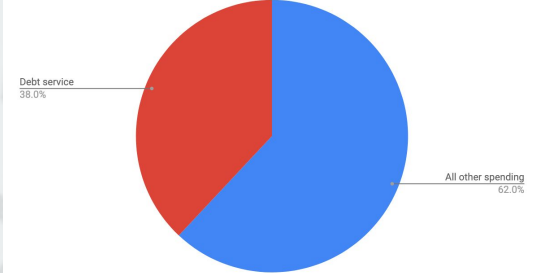
Best Practice for Percent of Total Annual Budget for Debt Service



City of Lambertville Percent of Budget for Debt Service as of Jan 2019

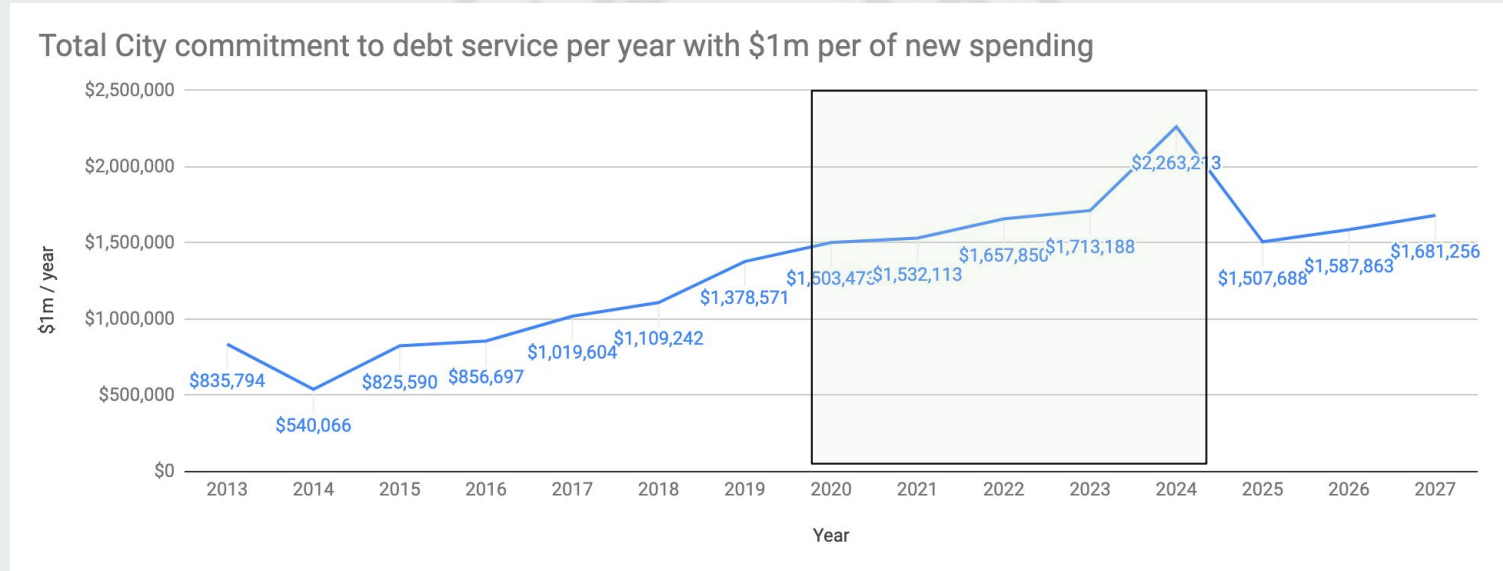


Debt service % of budget at current capital spending level in 2025



1. Problem statement(s): Need for a new process

Total amount of debt accrued

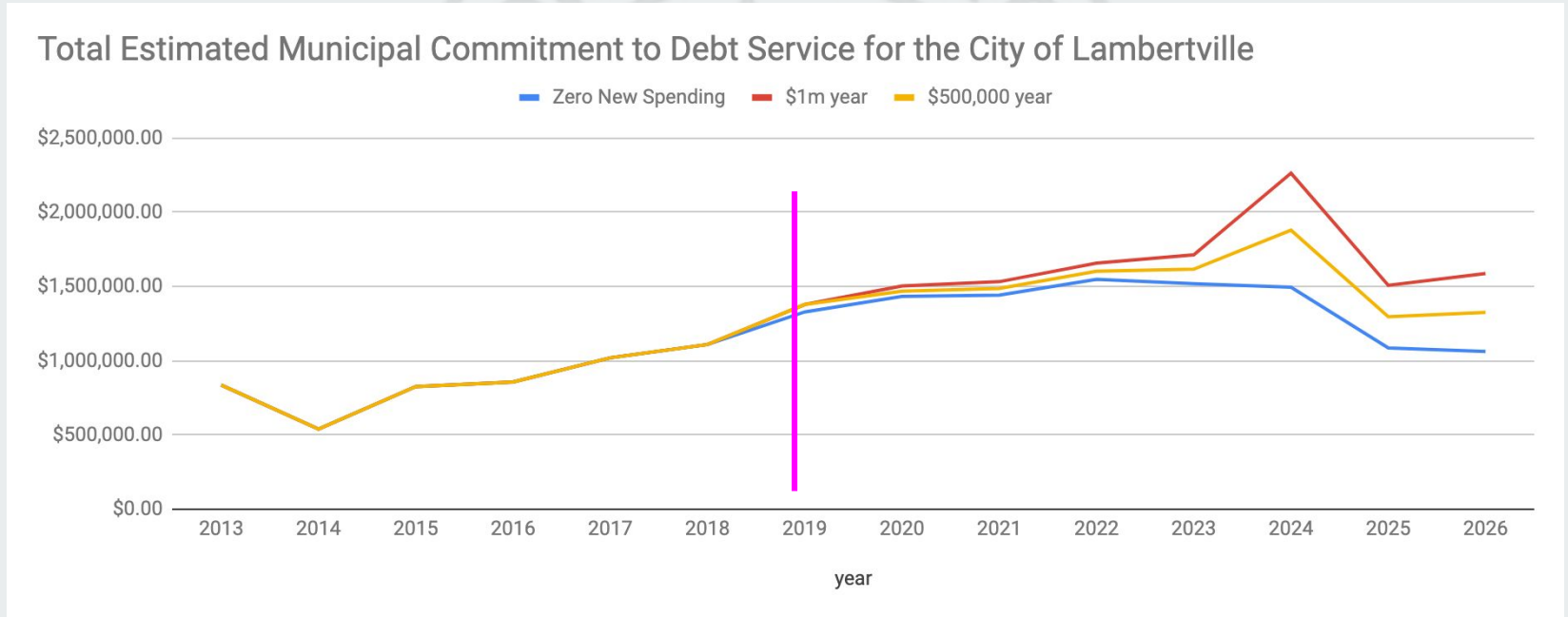


If we continued capital spending at the same level to prior years, the City would be obligated to pay approximately **\$8,669,837 in just the next five years on debt service**, which equals approximately **\$4,247.61 per average homeowner** just for debt over five years. **In 2025, nearly 40% of the budget would be for debt service.**

1. Problem statement(s): Need for a new process



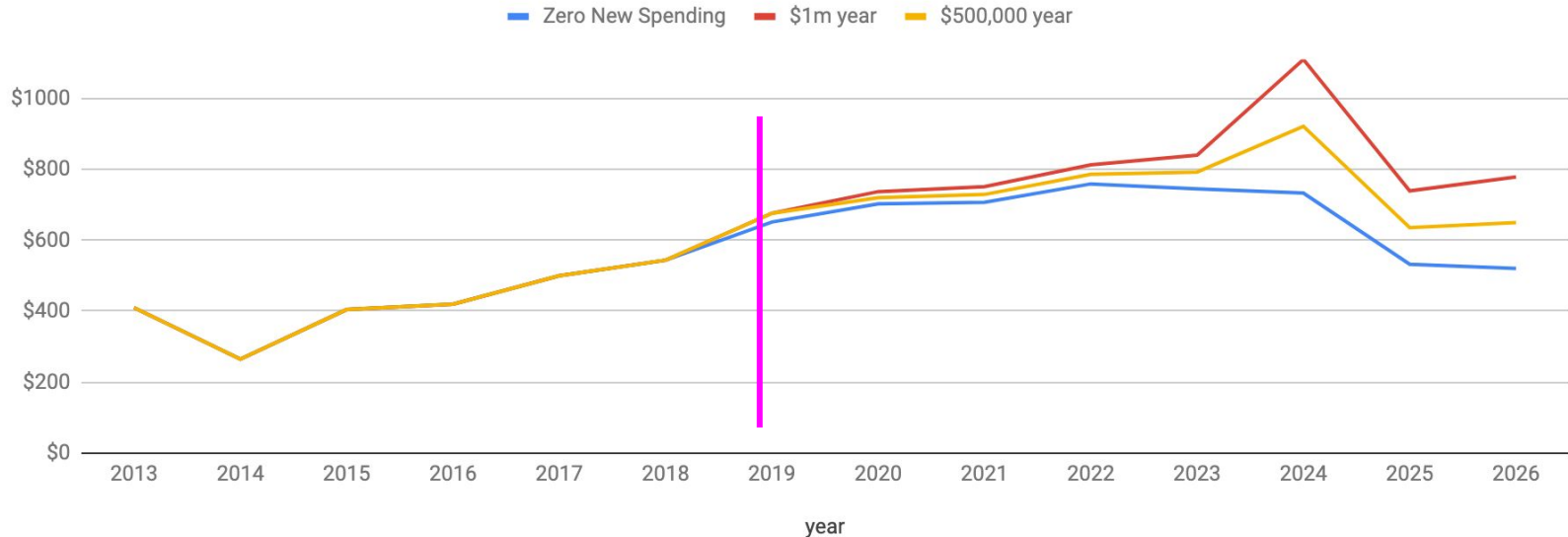
Total amount of debt accrued



1. Problem statement(s): Need for a new process

Total amount of debt accrued

Annual commitment for Debt Service per average assessed home in Lambertville



1. **Problem statement(s):** Need for a new process



Process for generating debt service funding

To appear to keep taxes flat, more money was borrowed to pay for the rising costs of the existing debt, rather than raised from taxes and pulled from the operating budget.

By borrowing to pay debt, which is relatively the same as using one credit card to pay off another, the City is kept in a cycle where debt is required to be taken to pay off older debt, and if taxes are being kept “flat,” it means that things have to be cut or not provided in the operating budget.

In our case, this has directly created the large deficit that exists that needs to be closed in coming years (more on in subsequent slides).

1. **Problem statement(s):** Need for a new process

Process for generating debt service funding



1. **Problem statement(s):** Need for a new process

Lack of certain/necessary items in operating budget

The prior process relied on borrowing money to pay for a number of basic, current-fund expenses, such as various professional service fees and many other items such as the debt service itself.

Doing this begins to create a situation where the budget is structurally underfunded, and unless corrected, will end with a structural deficit, which is what we have, and will get into in later slides.

1. **Problem statement(s):** Need for a new process

Lack of capital planning and project budgets

Instead of creating a capital plan and doing one bond ordinance per year for all capital spending, the historical process has been to do many (sometimes more than 10) bond ordinances whenever a budget line ran out or when a project idea came up. Each bond ordinance costs the City money to do.

Without knowledge about what costs are presently committed to in the future,* there is no way to know what is financially responsible or not in the present.

Capital spending is more typically planned out for many years (3 or 6) and is capped at a preset budget limit, with increases beyond that having a transparent discussion of tax impact and affordability.

1. Problem statement(s): Need for a new process

Not keeping up with rising costs

Costs to the City rise every year. Just using inflation alone (Costs rise annually well beyond that), an item that costs \$100,000 in 2015 will cost over \$108,000 in 2019. If annual increases aren't built into the budget every single year to match that, when you get to 2019, that \$8,000 must either be cut out of the budget or funded elsewhere. If we buy a widget every five years for \$100,000 and the increases aren't built in, and the item can't be cut without vastly reducing services then that means the money must be found elsewhere. In the City's case, the money was found by borrowing it, which hides the cost, starves the operating budget of structurally necessary funds, and accumulates debt in a never-ending cycle to simply keep up with the inflation and rising costs.

In 2009, putting \$100,000 in an account to pay for a cost of \$100,000			
	2009	2014	2019
Percent item is funded	100% funded	~90% funded	~81% funded
Money needed to reach 100%	\$0	\$10,347.40	\$19,393.39

1. **Problem statement(s):** Need for a new process

Existence of structural deficit

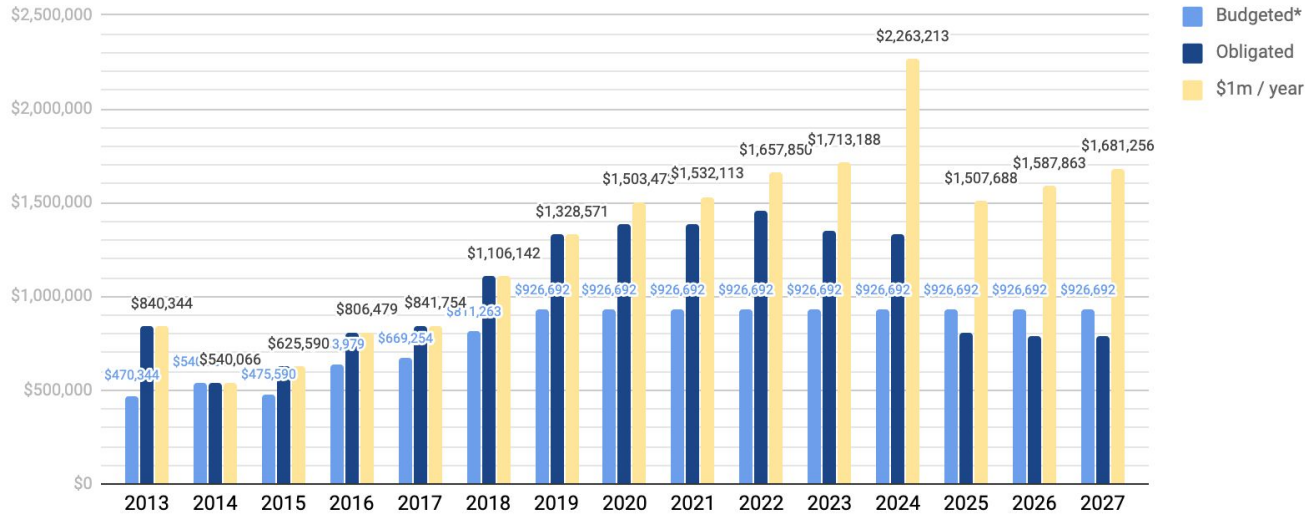
Approx how much was budgeted in 2018 for debt service in 2019	Approx how much is required for debt service in 2019
\$900,000	\$1,350,000

There is approximately a \$450,000 difference between those two numbers, meaning that the payments on our debt service that we have to make annually is \$450,000 more than the amount of money that had been added to pay for it in 2018. In 2019, money was needed to be taken from the “Reserve for Debt Service” account to cover the difference. There is likely only one more year (2020) of money left in that account even though there are five more years of debt service payments at this level.

1. Problem statement(s): Need for a new process

Existence of structural deficit

Annual Debt Service a) budgeted b) obligated to currently c) With \$1m capital spending per year



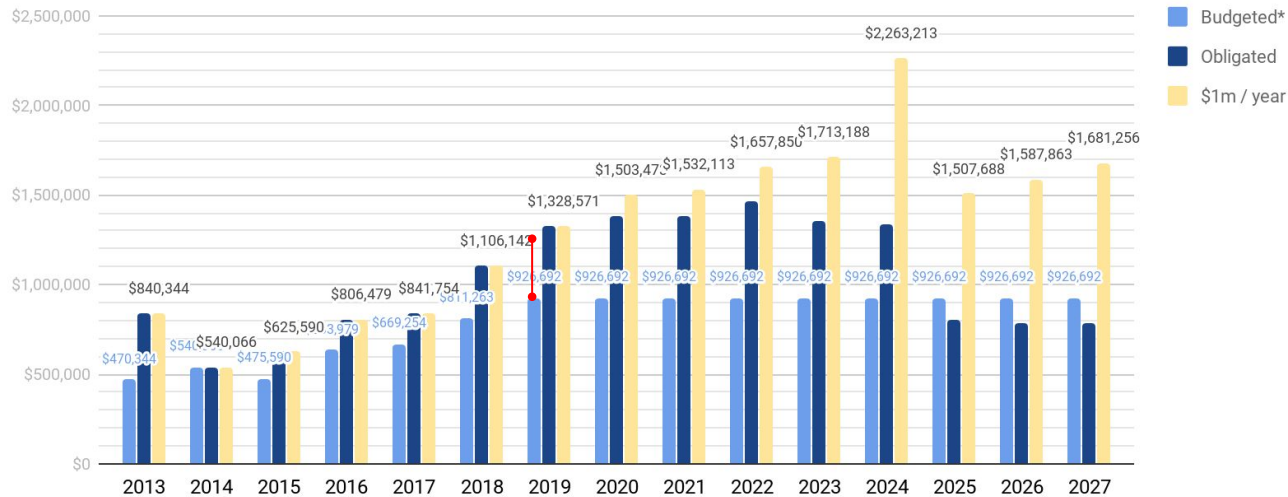
Prior annual DS deficit

2013	\$370,000
2014	\$0
2015	\$150,000
2016	\$172,500
2017	\$172,500
2018	\$294,879
2019	\$401,880

1. Problem statement(s): Need for a new process

Existence of structural deficit

Annual Debt Service a) budgeted b) obligated to currently c) With \$1m capital spending per year



Taking into account no new capital spending, **over the next five years the City needs to find approximately \$2.5 million to pay for debt** that the City is already contractually obligated to prior to 2019.

Continuing at current spending levels would require **the City to find approximately \$4 million.**

3. Solution - What does the new process accomplish?

Problem	Primary Solution
1. Process for generating “surplus” or fund balance	Create fund balance policy that regenerates and grows through current fund each year
2. Total amount of debt accrued	Create debt management plan and cap future borrowing to within a budget
3. Process for generating debt service funding	Anticipate new revenue**
4. Lack of certain/necessary items in operating budget	Start moving certain capital items into operating budget/current fund
5. Lack of capital planning and project budgets	Create capital planning process
6. Not keeping up with rising costs	Build in appropriate increases each year
7. Existence of a structural deficit	See #3

3. Solution - What does the new process accomplish?

What does success do for Lambertville?

Success will impact the following areas:

- Lowering, and potentially eliminating any tax increases to taxpayers for paying for capital projects into the future
- Improving the City's credit rating and lowering interest rates on future borrowing
- Increasing the amount of cash on hand for emergencies and unforeseen expenses
- Reducing the City's dependency on borrowing
- Reducing administrative and professional fees related to borrowing
- Improving understanding of how present decisions impact future finances
- Making a budget process that is accessible and transparent to the public
- And more

3. Solution - What does the new process accomplish?

What does success look like?

A successful financial and debt management plan built with this new process will include milestone financial health metrics. These will be created through this new budget process.

The target date to be used for ultimately measuring the progress towards sustainable financial health and resiliency is 2025 - five years out from the first year of the new budget process.

Metrics such as:

- The City's total debt
- Percent of operating budget dedicated to debt (and taxpayer impact)
- Budget control on capital projects - how many projects come in at/below budget and/or below estimated costs
- Dedication to the capital plan
- Availability of accessible financial information to internal and external City stakeholders
- And more

5. Next Steps: Walkthrough of process and timeline

Early August 2019	Governing Body goal setting process - workshop where Governing Body sets goals/priorities for the coming year
Early August 2019	Departments and Commissions are briefed on new budget process and provided summary sheet of the timeline and steps for new process
September 2019	Capital planning (for six years) performed, including facility reviews, vehicle inventories, infrastructure evaluation, etc
Mid October 2019	All operating and capital requests due from Departments and Commissions
Mid/Late October 2019	Administration discusses and finalizes requests with Departments and Commissions
End of October 2019	Mayor and Administrator finalize requests for Governing Body
November 2019	One or two public budget workshops held (Approx 2-3 hours of time total), where departments and commissions present "year in review" as well as operating and capital requests
December 2019	Feedback (from governing and/or public) from budget workshops taken back and Administrator and Mayor finalize anticipated 2020 budget introduction
January/February 2020	Budget is reviewed by Financial Team, and ready for introduction as soon as state/county/etc numbers become available
Late February/Early March 2020	In three sequential governing body meetings: <ul style="list-style-type: none"> • Municipal Budget Discussion • Municipal Budget First Reading/Introduction (and explanation) • Municipal Budget Public Hearing and Second Reading/ Adoption
End of March 2020/Early April	2020 Municipal Budget Adopted
Early April 2020	Bond ordinance for 2020 capital items introduced/adopted
April 2020	2020 Capital spending, road resurfacing, etc will begin process

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