



CITY OF HALLOWELL

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NATE RUDY

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Manager's Proposed Budgets for FY21 Second Reading July 8, 2020

Overview

In June I celebrated my fourth anniversary serving as Hallowell City Manager, and this is the fourth budget I have helped prepare starting with the FY17 budget. Over that time, we have worked to balance essential organizational, operational, and capital expenses with the important goal of maintaining an affordable property tax rate. Part of that effort has been the Mayor's and City Council's FY17 general obligation bond to pay for infrastructure projects around the City that would boost the local economy, including the Hallowell's share of a major Maine DOT road construction project on Water Street. My recommendations for capital improvements in past years have come in the form of requests to the Council from each City department lead, acknowledging that the City operated under an especially austere budget from FY09 through FY14, and fell behind on investments in buildings, police vehicles, fire vehicles, and plow trucks / public works vehicles. Our organizational and operational funding requests have come in recognition of what our staff needs to address new and evolving challenges facing the City.

I am pleased to report that Hallowell has realized the potential for new community economic development on Whitten Road, Winthrop Street, and at the Stevens Commons campus, where new real estate and business investments have resulted in substantially increased taxable property value for FY21. Last year Stevens Commons became home to 30 new students living at the first ever University of Maine at Augusta housing facility, thanks to the efforts of Mastway Development. This year Central Commons has become a new home to over 30 older residents, and Mastway is currently working on other projects to bring more residents and businesses to Stevens Commons. The Mayor's appointed Comprehensive Plan Committee is working diligently on a vision for the next 10-15 years of growth and development in Hallowell, with an eye toward sustainability, stability, and maintaining a manageable City budget. We anticipate investments in other areas of the City, including downtown, in the near future.

Municipal Budget Considerations

Unfortunately, the onset of COVID-19 in Maine has substantially curtailed the City's FY21 plans to catch up on deferred maintenance and vehicle replacement, as well as given pause to our vision

for a new Police Station and Public Works facility. While the Council will deliberate on these issues prior to the third and final budget readings, the budgets I have submit to the Finance Committee and the City Council for the Second Reading has reduced these aspirations and added some other funding priorities identified by staff and Council members. Here are some of the adjustments we have proposed to the first budget proposals as originally submitted by Hallowell's department leads:

Table 1. Municipal Expense Budget Adjustments over \$2,500

Budget Item	Account	2021 Initial	2021 MGR	Difference	Note
COVID-19 Expenses	15-25-13	0	10000	10000	
FEMA Grant Match (fire vehicle)	15-25-57	0	30000	30000	Only will be used if Hallowell receives a FEMA grant for a fire vehicle
Abatements	21-04-04	10000	5000	-5000	In the vent of tax revenue lost from approved abatement requests
Fire Truck Lease	22-47-17	70000	0	-70000	1st of 10 year lease
PD Training and Travel	30-31-01	6000	2000	-4000	
PD Officer Position Request	30-35-45	45822	0	-45822	Proposed new officer position removed with agreement from PD Chief
PD Parking Enforcement	30-35-53	6000	0	-6000	
PW Steam / Weed Machine	40-42-07	10000	0	-10000	Hallowell portion of machine joint-owned with Gardiner
State of Maine DPS fee	41-53-13	3500	530	-2970	Contract cost reduced by DPS vs. projected cost
Electricity for Street Lights (LED)	70-56-07	30000	10000	-20000	Newly installed LED lights require less electricity
General Assistance	80-57-01	8000	16000	8000	Higher need for General Assistance projected due to COVID-19 economy
Hubbard Free Library City Support	85-60-02	68040	42000	-26040	
Old Hallowell Day	87-60-04	2500	0	-2500	OHD events cancelled for Summer 2020 due to COVID-19

Bicentennial	87-60-35	5000	0	-5000	Bicentennial events cancelled due to COVID-19
PW Garage Study	90-05-11	10000	0	-10000	Proposed pre-construction / engineering / appraisal costs
PD Office Study	90-05-12	10000	0	-10000	Proposed pre-construction / engineering / appraisal costs
Sidewalk Maintenance	90-10-01	35000	8000	-27000	Proposed priority sidewalk maintenance and rehabilitation
PD Cruiser Replacement	90-10-03	50000	0	-50000	Proposed cruiser rotation schedule set in FY20
Bulkhead Replacement	90-10-18	75000	0	-75000	Proposed repair of bulkhead decking and support structure
Road Maintenance	90-20-21	130000	40000	-90000	Proposed priority road repairs reduced to repair of Blaine Road only

There are other increases in the municipal budget lines from incidental costs, and from contractual agreements affecting salaries, benefits, and insurance costs; Insurance costs alone will increase in FY21 by around \$46,000.

Unfortunately, the kids Summer Recreation program had to be removed from both the expense and revenue budgets in FY21 due to COVID-19 safety concerns.

Retained expenses of note include continued support for the FY20 restoration of the Assistant Clerk position, which was eliminated in 2016 and has resulted in hardships to the Clerks and administrative offices, including insufficient capacity to both serve peak times at the office and complete back-office duties, as well as difficulties scheduling vacations and covering absences due to illness. This position was not hired in FY20 in part due to COVID-19 concerns, but we are prepared to hire and bring on new staff as soon as the FY21 expense budget is approved.

Also remaining is the proposed replacement of a 2008 plow truck for Public Works, which is already at least two years behind schedule.

City use of TIF funds for projects and General Fund Expense Offsets

The City Manager’s budget proposal includes a recommendation to use the Downtown TIF fund to offset allowable expenses incurred by the City in FY20 and to be incurred in FY21. At the end of FY20, the City has \$298,451 saved in the TIF fund. The City Manager’s budget proposal suggests that Council approve a TIF offset of \$86,960 for the FY20 revenue budget. These offsets were first presented to you in May, 2019 as part of the FY20 budget proposal but never had a vote from Council. This offset would allow the City to increase its total “Carry Forward” amount to include \$50K of regular carry forward (revenue budget line 10-099) and also the recommended FY20 offset of \$86,960 (line 10-098)

for a total of \$136,960. The City Manager also recommends that Council approve an estimated TIF offset of \$92,030 for the FY21 revenue budget (line 10-097), which will result in a total proposed TIF fund use of \$178,990 for eligible general fund expenses.

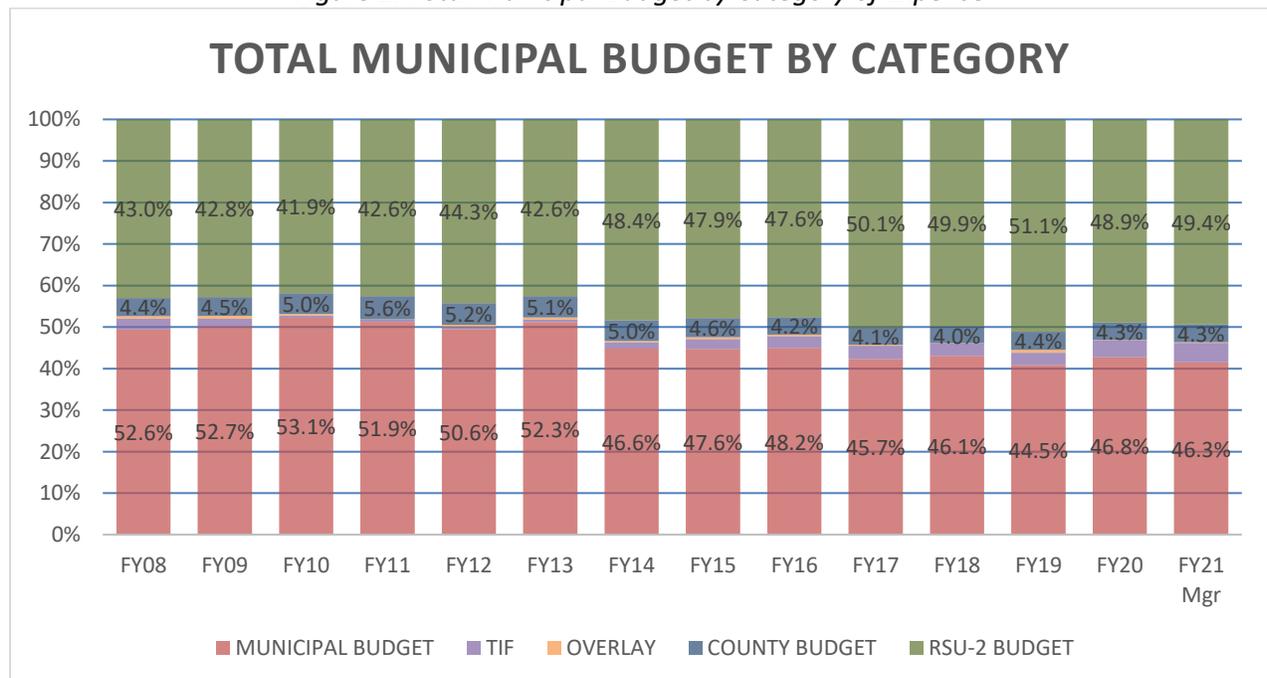
With the TIF offsets that I propose, the FY21 mil rate will be 21.5, up 0.2 mil from the FY20 mil rate, approximately a 0.9% increase. Without the TIF offsets the FY21 mil rate as proposed would be 22.2, up 0.9 mil from the FY20 mil rate of 21.3, approximately a 4.2% increase.

If Council approves the proposed budget with TIF offsets, there will be \$119,461 remaining in the TIF fund, plus what the City will accrue to the TIF fund in FY21, approximately \$243,440. After the City pays the annual \$100K portion of the FY17 bond from the FY21 budget, the City Council may wish to consider that the \$263K in remaining TIF funds available show that it is possible to both reduce the FY21 mil rate and also fund other projects such as the bulkhead decking repair and paving the Central Street parking lot.

RSU-2 and County

Hallowell’s share of the RSU-2 budget for FY21 increased by \$149,312 (up 4.9%), to a total of \$3,062,505. Hallowell’s share of the Kennebec County budget increased by \$10,539 (up 4%) to a total of \$277,099. **Combined, the RSU-2 and County budgets make up 53.7% of the overall municipal budget.**

Figure 1. Total Municipal Budget by Category of Expense

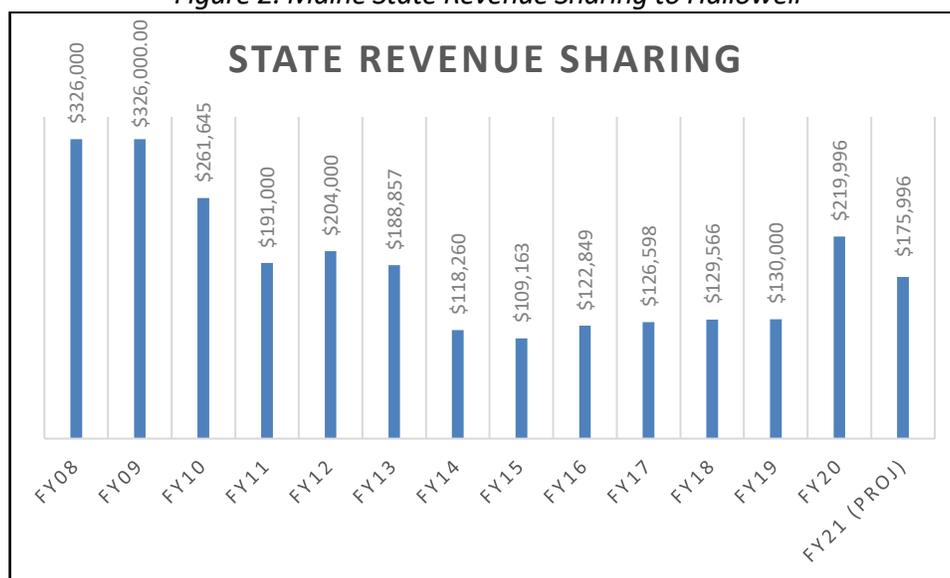


Municipal portion represents total budget including TIF and Overlay expenses.

Revenue Uncertainties

The timing of Hallowell’s budget proposal and adoption has been affected by COVID-19, and even at this date the legislature has not met on the state budget, so questions remain about revenue sharing to municipalities, notably around tax revenue sharing and the Homestead Exemption. The revenue projections in this budget should be considered “working” numbers, based on our assumption of a 20% reduction in state revenues and reductions in LRAP funds as we have been advised by the state. Assumptions may change between this and the final reading of the budgets.

Figure 2. Maine State Revenue Sharing to Hallowell



Municipal revenue sharing was reduced by 60% statewide between 2010 and 2018.

Proposed Mil Rate

The City Manager’s proposed budgets result in a mil rate of 21.5, up 0.2 mil from the FY20 mil rate, approximately a 0.9% increase.

The tax increase for an average residential property in Hallowell, valued at \$184,000, will be \$36.80.

Table 2. Tax amount change for an average residential property in Hallowell

Tax Rate	Average Taxpayer FY20	Average Taxpayer FY21 (Manager Proposal)	Change
City	\$ 1,836.13	\$ 1,833.28	\$ -2.85
RSU-2	\$ 1,916.28	\$ 1,954.13	\$ 37.85
County	\$ 166.79	\$ 168.59	\$ 1.80
Total	\$ 3,919.20	\$ 3,956.00	\$ 36.80

The portion of each dollar of the mil rate allocated to City, school, and County budgets are represented in Table 3:

Table 3. Hallowell Mil Rate portion for City, RSU-2, and County (Manager Proposal)

Tax Rate	FY20 mil rate portion	FY21 mil rate portion (Manager Proposal)
City	\$ 9.98	\$ 9.96
RSU-2	\$ 10.41	\$ 10.62
County	\$ 0.91	\$ 0.92
Total	\$ 21.30	\$ 21.50

Capital Budgeting and Debt Service

Hallowell experienced deferred maintenance in prior years that resulted in a fleet with some public works vehicles that are years beyond their expected use. Compounded by a public works garage that is too small to easily fit and service modern plow trucks and other equipment, our costs for maintaining the fleet have risen in recent years due to winter exposure, wear and tear. Likewise, the Fire Department’s Engine 1, manufactured in 1986, is now entering its 34th year of service while Engine 2, manufactured in 2004, has become the primary response vehicle for most calls. Projections for the vehicle replacement schedule that we implemented in FY17 continue to mount as we defer these replacements, and in FY22 we project an increase in the vehicle / equipment replacement / building maintenance budget from \$112K in FY21 to an average of \$458K in each of the next five fiscal years, if the Council maintains the proposed vehicle replacement schedule and funds the construction of a new public works facility. I request that the Council review its options with respect to a bond that might cover the cost of replacing a fire vehicle and constructing both a Public Works facility and a Police Department office, or seek other alternatives for PD and PW in the coming year. I would also ask for Council to consider additional investments in maintenance and repair for City buildings.

Line Item Funding Carryover / Sinking Fund Requests

Several of our budget items are treated as “sinking fund” or “carryover” accounts, which are intended to accrue year-to-year for a specific purpose (ex. the SCBA sinking fund for future replacement of fire department breathing apparatus) or to cover a known cost (ex. the monumentation of boundaries at the RES park or payment to the City’s comprehensive plan consultant for work that was budgeted in FY20 but won’t be billed until FY21).

I recommend the following amounts for line items to be carried into FY21 to offset anticipated future costs:

Table 4. Requested funding carryovers for anticipated expenses in FY21 / sinking funds

Item	Account	Amount
RES Boundary	51-58-04	\$2,950
PW Sinking Fund	90-10-66	\$3,992
SCBA	90-42-55	\$3,000
Comp Plan	86-61-13	\$14,314

Fund Balance

Pending certification by the City audit, we project an estimated “surplus” of \$82K over the minimum 10% required Hallowell fund balance of \$630K. My proposed revenue budget recommends that you use \$50K of “carry forward” to help reduce the mil rate. Understanding that City department expense budgets are generally very precise, and in some lines were underfunded in FY20 due to a combination of overly optimistic cuts and budget overages related to vehicle maintenance and other unexpected costs, I am concerned that maintaining a thin fund balance margin could at some point trigger the austerity budgets required by Chapter 3 of the City Ordinances. Section 3-106-2-C states:

Whenever the (adjusted) unassigned general fund balance is below 10%, notwithstanding subsection 2.B., the following budgetary action will occur: reduction in expenditures of the fiscal year budget by at least one-half (1/2) of one (1) percent up to one (1) percent of the total City budget until the minimum level of 10% is achieved. This dollar amount of the total City budget is to be translated to a percentage of the municipal budget since the school and county budgets cannot be factored into the equation. Any spending reductions that are achieved in excess of one (1) percent at the end of the fiscal year are to be accepted.

Given the precision of our department budgets, the cuts we have made in recent years, and the lack of fund balance surplus, reduced expenditures could result in staff furloughs and / or a reduction in the quality of service the City provides to the citizens of Hallowell. I recommend that the City Council support efforts to increase the fund balance to at least 13% over the next four fiscal years.

Conclusion

We anticipate that Hallowell will benefit from increased state revenue sharing in coming years, after municipal revenue sharing was reduced by 60% statewide between 2010 and 2018. The pressure on City expenses has been difficult to endure and will show itself in reduced quality of infrastructure and roads / plowing of local roads, and reduced response capacity from first responders and essential employees, **if not addressed** with increased taxable property or other sources of revenue. I am grateful for the support of the City Council and other concerned citizens in Hallowell who have

volunteered their time on City committees, advocated to the state government for restored revenue sharing and other forms of revenue including a local share of state taxes on marijuana sales, and attended conferences and training sessions on how we can rejuvenate and develop our local economy.

I am also grateful to the City Department Leads and staff for their efforts to identify the painful, but necessary, budget adjustments that are represented in my proposed budget. Thank you also for the guidance and oversight provided to me by City Council Finance Committee Chair George Lapointe and the members of the Finance Committee, Maureen AuCoin and Kate Dufour. Finally, thank you for the honor and privilege of serving the citizens of Hallowell, and to work with an excellent group of people who I am honored to call my co-workers.