TOWN OF RAYMOND

2020 COVID-19; Recommended Fiscal Plan

(April 20, 2020)

Concept of Tax Impact

As identified on March 16th, there is a realistic risk that the economic impacts of COVID-19 could result in a potential tax impact. To best plan to mitigate these potential impacts we should evaluate the four basic categories which could be impacted by a significant or catastrophic economic downturn and their impacts on the tax rate or cashflow. In addition, it is important to realistically evaluate if there are any potential negative outcomes in these areas and the measure in which they could be controllable or mitigated. Here are the four broad factors:

1) **Assessed Value:** The assessed value of a Town is the major factor of setting the tax rate. In simple terms, the total amount appropriated through taxes minus offsetting revenues is divided by the assessed value.

Appropriations	−	Offsetting Revenue	÷	Valuation	=	Municipal Tax Rate
Budget & Warrant Articles		DMV Reg, Permitting, Licenses, State Funds		Value of all Lands & Buildings In the Town		Price Per $1000 taxed for Municipal services

If the economic impacts of COVID-19 cause a depreciation of the property values across the Town, then the municipal tax rate would increase. However, this increase does not translate into people paying more in taxes because the increased municipal tax rate would be multiplied by a reduced property value.

House Valued at $200K × **$5.00** (Example Municpal Tax Rate) = **$1,000** (Amount Paid in Taxes)

Below highlights the impact of a 15% loss in Town Evalaution which would likley translate into a loss in the value of properties and lands in the Town.

Same House Valued at $170K (15% loss in value) — **$5.75** (Example Municpal Tax Rate, 15% increase in Tax Rate) — **$977.50** (Amount Paid in Taxes)

Indicators of Impact on Assessed Value: Indicators are that the initial impact of COVID-19 has caused a 15% reduction in property values nationally and an 11.5% reduction in NH; the loss in property value seems to be directly linked to the severity of the outbreak in an area. Raymond is going through a Re-evaluation in 2020. Impacts will not fully be known from a numbers perspective; however, a loss in value will increase the tax rate but not significantly alter what people pay in taxes.

Summary: An uncontrollable factor that may alter the numbers in the calculation, but on a broad scope will not alter the taxes received by the Town or paid by property owners.

Recommended Action: Monitor, inform public of potential changes, if any.

2) **Collection of Property Taxes:** The actual collection of property taxes ***does not*** directly impact the tax rate. This is because the tax rate is set on the Assessed Value of the community and the assumption that these taxes will be collected. However, if there is a shortage in this area, it does translate into a reduction in Cashflow.

Cashflow: Cashflow, in simple terms, is the receiving of incoming funds to pay outgoing obligations. Cashflow is the collection of taxes to pay appropriations, and having sufficient cashflow is the goal of setting the tax rate.

Most Towns' primary cashflow requirement is to public education. If there is a catastrophic drop off in people being able to pay their taxes below our existing obligations, then there would be a cashflow shortage. Of course, this would have to be a widespread economic collapse, locally or nationally, which does not seem likely.

Summary: An uncontrollable factor that is not likely to occur fully; however, the potential does exist for some reduction in cashflow.

Recommended Action: Monitor and implement strategies to ensure capability to cover 40% of the Town cashflow obligations for the year.

3) **State Funding:** The funding received from the state has a variety of impacts:

Block Grant: This is nearly $240,000 that the Town receives annually for roads; it does not have a tax impact if reduced. However, 2021 funding for road work would be impacted.

Summary: An uncontrollable factor that, if occurred, would not create an immediate tax impact but would cause future tax needs.

Recommended Action: Monitor and work with elected state officials and NHMA to ensure funding is provided to the best of the ability of the state.

Meals and Room Tax: The Town receives approximately $543,270 from the state under this tax. This funding source has a significant impact on the tax rate and, if not provided, the municipal tax rate could increase by an estimated $0.55 per thousand (8.4% increase).

Summary: An uncontrollable factor that, if occurred, would create an immediate and significant tax impact.

Recommended Action: Monitor and work with elected state officials and NHMA to ensure funding is provided to the best of the ability of the state. Leverage Tax Mitigation Strategy below to plan for an impact.

Capital Grant: In 2019, the state passed a two-year capital grant for Towns. Raymond's amount projected to be received from the state is $145,519. Since this had to be projected as anticipated revenue, the loss of this funding could have a tax impact of $0.14 per thousand (2%). Since this was part of the 2019 State Budget, it seems unlikely that this funding will be lost. However, losses in revenue here should be monitored and could be mitigated through diversion of funds from the Unassigned Fund Balance.

Summary: An uncontrollable factor that, if occurred, would create an immediate and significant tax impact. It is unlikely because it has approved in the 2019 State Budget, but it is a risk.

Recommended Action: Monitor and work with elected state officials and NHMA to ensure funding is provided to the best of the ability of the state. Leverage Tax Mitigation Strategy below to plan for an impact.

In addition, the School has received a similar grant and it is recommended to determine the impacts if these or other state educational grants are lost or reduced.

State Roll-up: The Town has projected to receive $933,789 in 2020 from the state, of which $688,789, if lost, could increase the tax rate by $0.70 per thousand.

Town Offsetting Revenue: As stated above, this is the revenue generated by the Town that is used to offset the tax impact of appropriations; the entire amount in

this category create a tax impact and is the most likely factor to be impacted by an economic downturn.

However, it is important to note there are really two categories in the area of offsetting revenue: Projected Revenues and Actual Revenues.

> **Projected Revenues**: Since municipalities must submit a Revenue Budget to DRA prior to the funds being received, then these revenues are estimated (or projected) and do not match the actual revenues received at the end of the next year.
>
> > It is important to note; only projected revenues have an impact on the tax rate, not actuals revenues.
> >
> > In Raymond, the fiscal practice is to conservatively project revenues to protect the taxpayers from an unexpected economic downturn or fluctuations in revenue streams.
>
> **Actual Revenues:** This is the amount in offsetting revenues actually received and has no impact on the tax rate because it is not known until after the end of the funding year. (again, projected revenues are used to set the tax rate because they are an estimate of actual revenues at the beginning of the funding cycle).
>
> > Last year the Town of Raymond exceeded revenue projections by $614,049, or 26%.

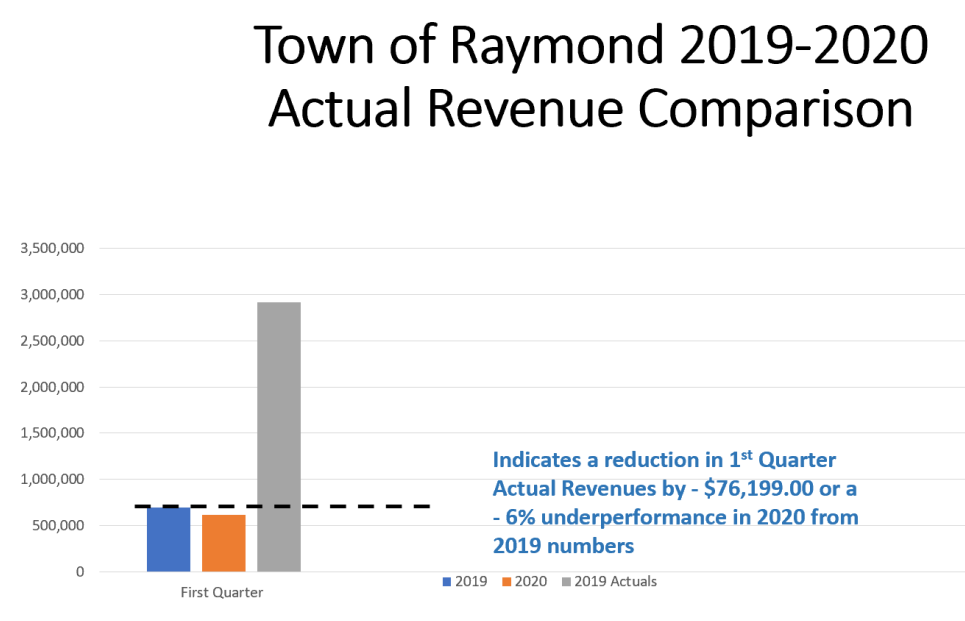
This is the area where the Town can do the most to mitigate the tax impact.

How we stand: In 2019, the Town "*projected revenues"* of $2,305,565 (what was estimated the Town would generate in revenue) and generated "*actual revenues"* of $2,919,614 (the revenue actually generated).

The difference between the projected revenues and the actual revenues means in the 2019 the Town had an excess revenue over projections of $614,049. This was deposited in the unassigned fund balance.

2019 and 2020 Actual Revenue Comparison: By the first quarter of 2019, the Town had earned $690,248 in offsetting actual revenue.

Comparatively, in the first quarter of 2020 the Town has an actual revenue of $614,049, which is a 6% loss in revenue from 2019. (See chart below)



The 2020 Revenue Projections were set in January at $2,374,502 which was a 3% increase over 2019 projections. However, the 2020 projections were still below the 2019 actual revenue by $545,112 indicating the still could meet revenue obligations by adjusting the projections in October to a less conservative figure.

If we project a 20% loss in actual offsetting revenues from 2019, we could assume we would bring in $2,335,691.20 which would be an estimated $38,811 revenue shortfall or $0.039 per thousand impact.

Summary: An uncontrollable factor that, if occurred, would create an immediate and significant tax impact. It is extremely likely there will be a loss in revenue in 2020 from 2019, as well as a possibility that the loss would continue to a lesser degree in 2021. However, the 20% projection is to plan for a worst-reasonable-case scenario, and current numbers do not support this level of loss.

Recommended Action: Monitor and work with Leverage Tax Mitigation Strategy below to plan to temporarily supplement a reduction in the municipal tax rate, if needed. Make proper adjustments in October 2020, with a less conservative projection and/or use unassigned fund balance to cover the gap.

In addition, the School receives Impact Fees which may also be reduced over this year. It is recommended to inform the School Board to look into the Revenue Projections for these Impact Fees to assess and prepare for any School Tax Rate impacts.

Mitigate Impacts of a Sustained Economic Downturn. As highlighted on March 16, 2020, the Town had developed a strategy to mitigate the potential impacts on the tax rate. The Plan should address freeing up cashflow for obligated costs, tax rate stabilization, and possible temporary tax relief.

Secure Cash Flow: This plan incorporates the nearly $1 Million dollars (estimated $967,424) in 2019 excess funds and revenues deposited in the unassigned fund balance even after the passage of all of the 2020 Board of Selectmen Warrant Articles.

If required, these funds could be combined with the $3,821,051 already in the Unassigned Fund Balance for an estimated total of $4,788,475, which represent a cash reserve of 61% of the Town's 2020 Operational Budget and represents 97% of the amount owed to the SAU in July ($4,925,727) and 48% of what is estimated to be owed through all of 2020.

These funds would be available for School Budgetary requirements if revenue projections experienced a catastrophic underperformance of property tax payments and a cash flow shortage.

In short, even if we had nearly 100% loss in property tax revenue (extremely unlikely) we could ensure we covered our cashflow obligations by 97% for short-term (6 months) and 48% of long-term (until the end of 2020).

Tax Rate Mitigation Through Budget Holdback Initiative: Tax rate mitigation should focus on a couple of objectives that are increased if possible or needed.

Budget Holdback Initiative (BHI): The is an effort to hold back 8% of the Town's 2020 Operational Budget to cover COVID-19 expenses and to provide funding to mitigate the loss of offsetting revenue.

The 8% holdback equates to an estimated $622,421 set aside to address municipal tax mitigation efforts.

If there was a 20% loss in actual offsetting revenue and a total loss in state funding, the revenue deficit would be $652,860, which could be covered up 95% by the Budget Holdback.

Further Discussion: With the BHI and the $134,00 in reduced Municipal appropriations in 2020, Objective 1 (below), appears to be extremely achievable.

In addition, since it is unlikely the Town would have a total loss in property tax payments, then portions of the $4,925,727 could be made available to support these objectives:

Objective 1: Prevent an Increase in What People Pay in Municipal Taxes: The first objective is recommended to ensure individual economic impacts are not increased by an increase in municipal taxes. This is done through the Municipal Budget Holdback Initiative.

It is important to note: This is not a focus on the tax rate (see Assessed Value Illustrations), but rather a focus on what our residents pay in Municipal Taxes.

Objective 2: Secure the Tax Rate the Municipal Tax Reduction Projected in 2020: If Objective 1 can be achieved, the second objective should be to ensure that the municipal tax reduction of $0.13 per thousand is guaranteed by using the funds made available through the Budget Holdback Initiative.

Objective 3: Offer One-Time Tax Relief: If all of the objectives above are secure, and it has been determined the families in this community have been significantly impacted by the COVID-19 impacts, the funds available could be used to ***artificially and temporarily decrease*** the tax rate.

This effort would reduce the taxes for one year to help families recover from this event. However, it must be understood, this action would only temporarily suppress the tax rate, and the following year's tax rate would increase back to its legitimate level.

In addition, these funds would not be available, or would deplete funding, for capital improvement which would most likely increase cost (and perhaps taxes) in the future.

Clarification of the Concepts of the Budget Holdback Initiative (BHI):

1) **What is the Budget Holdback Initiative?**

    a. In July 2018, the Town implemented spending protocols and at the beginning of each year 4% of the Operational Budget is restricted and set aside to address unforeseen and greatest needs.

    b. This action has saved the taxpayers on average of $50,000 to $60,000 per month in spending and has allowed the Board of Selectmen to reduce the growth in the Operational Budget in 2019 and 2020.

    c. This year, due to COVID-19, the holdback was increased from 4% to 8%.

    d. This does not mean there were excess funds. Rather, some things will not be purchased or completed if the need is less than COVID-19 actions or Tax Mitigation actions.

2) **Is the Holdback achieved by increasing budget lines in the budgetary process to cover unexpected cost (example increasing lines by 3%)?**

    a. Absolutely not. The budget is developed line by line, after a five-year lookback on the spending in each line. In addition, the Town conducts research into market trends like US Postal Service increases, energy forecast, and known upcoming or eliminated obligations.

    b. The Town does not "pad" the budget for unexpected cost; the Contingency Fund adopted in 2019, allows the Town the ability to gain access to 1% of the previous years appropriations from the unassigned fund balance to cover emergency or unexpected cost. The establishment of the Contingency Fund eliminated the budgeting practices of inflating budget lines within the Town of Raymond.

    c. The Operational Budget is proposed to the Board based on actual and projected costs.

    d. Since the spending protocol and the five-year analysis were implemented, we have drastically reduced the growth of the Operational Budget, as evidenced by the less than 1% growth in 2020.

    e. The Holdback simply works via tradeoffs and prioritization of needs (similar to what we all do in our home budgets). The Town projects known and actual cost of normal activities, but we undoubtedly will have something that is unknown (like COVID-19) which may come forward after the approval of the budget.

    f. The Holdback allows us to trade doing something of lesser common good for the ability to do something of greater common good.

g. Examples of actions taken to achieve the BHI (not all inclusive)

i. Retain balance of Employee Buyout Funds
ii. Restriction on Employee Vacation Buy-Downs
iii. Holding off on new employee hiring in Planning
iv. Controlling of spending of facility energy consumption (adjusting facility lighting & temperature controls)
v. Anticipated reduction in fuel expenditures due to reduction in cost/use
vi. Anticipated reduction in vehicle maintenance cost due to reduced use
vii. Evaluation of restriction of seasonal employee hiring
viii. Anticipated reduction of office supplies and printing
ix. Restrictions on purchase on all non-critical items and equipment
x. Restrictions and reductions in overtime (cannot compromise safety)
xi. Restriction of contracted services to only those deemed mission critical
xii. Earmarking funds not used for activities due to COVID-19 restrictions
xiii. Restricting use of legal services to TM or Designee approval
xiv. Not Re-painting Town Roads in 2020
xv. Reduction in contract scope of work (i.e. road sweeping, uniform services)
xvi. Accelerate action on Facility LED Conversion to reduce cost
xvii. Accelerate phone system conversion to reduce cost
xviii. Altering Town and SAU Dumpster pick-up schedule to reduce cost
xix. First Quarter savings on Street Light LED Conversion
xx. Leveraging State and Federal Emergency Programs to mitigate cost

In addition, the Town has established financial practices to track the cost associated with COVID-19 across all Town Departments for potential FEMA reimbursements and relayed this information to the SAU for their consideration.

Lastly, it is important to note; this plan outlines a response to a catastrophic economic collapse and a loss of all state funding, which is extremely unlikely. However, this program allows the Board of Selectmen with the ability to not only ensure the fiscal viability of the Town, but also allows for the protection of and relief to our residents in the event that any of these factors pose a risk of a tax rate spike.

Respectfully submitted,
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Town Manager, Raymond NH