

This report will focus on a multi-year look at Seabrook's overall finances, including the tax levy (overall dollars raised), where those dollars came from, (commercial, industrial, and utility, with NextEra broken out separately,) the tax rate, and budgets broken out by category. We will look at where our dollars are going, the stress on our tax rate, and what is causing that stress. We need to look at how the finance system works, and dispel some notions that tend to confuse the issue of how we set our tax rate.

The numbers in the below table are the total dollars raised through property taxes in Seabrook for the years 2014-2017. For the purposes of understanding the "spending" side of the tax equation this is the number that needs to be focused on, as everything else that we do is driven by this number. Discussions on property values as a driver of the tax burden are misplaced, as total spending is what drives the ultimate tax burden.

<b>Dollars Raised Through Taxation</b>	<b>Total Tax Levy</b>
<b>2014</b>	\$37,761,786
<b>2015</b>	\$37,931,892
<b>2016</b>	\$37,246,000
<b>2017</b>	\$39,810,446

How we arrive at the total tax levy is very important, and we shall show the component parts of the spending below. For now we can look at these top-line numbers. The tax levy went up over those four years by \$2,048,660, a 5.4% increase, or a 1.8% annual increase. It should be noted that the overall levy declined between 2015 and 2016. Any rate of increase below 2% is outstanding, and shows that the overall levy has been held in check. But that is not the entire story.

Let us take a look at how the overall tax burden in Seabrook has developed, year by year, starting in 2014.

2014	TAX RATE	TAX LEVY	PERCENT OF LEVY
<b>Total</b>	\$15.27	\$37,361,786	
<b>Town</b>	\$6.37	\$16,986,651	45.47%
<b>Local School</b>	\$5.42	\$14,453,735	38.69%
<b>State School</b>	\$2.52	\$3,366,006	9.01%
<b>County</b>	\$0.96	\$2,555,394	6.84%

In looking at the “tax levy” for the Town it is important to note that overall number would be the town budget (spending) less town revenues, less any application of fund balance to offset the budget and thereby “smooth” the tax rate. For every dollar raised in “local revenues” we reduce the overall tax burden to our taxpayers. In 2014, including water and sewer, our “local revenues” were \$5,885,678. I have submitted an annual report on water and sewer operations, and prefer to deal with those impacts separately. If we take out water and sewer revenues, and other inter-governmental spending, local (town) revenues would be \$4,441,755. The Fund Balance at the close of 2014 was \$4,475,677, and no fund balance was applied to offset the tax rate.

Let us look at the same numbers for 2015.

2015	TAX RATE	TAX LEVY	PERCENT OF LEVY
<b>Total</b>	\$14.79	\$37,931,892	
<b>Town</b>	\$6.29	\$17,491,429	46.11%
<b>Local School</b>	\$5.17	\$14,393,160	37.94%
<b>State School</b>	\$2.37	\$3,363,153	8.87%
<b>County</b>	\$0.96	\$2,684,150	7.08%

Overall the Town number rose by \$504,778, which was the bulk of the increase in the total tax levy, which rose by \$570,106. In that cycle the Town held its budgeted spending steady, but voter approved capital spending accounted for the entire increase. (Aggregate approved warrant articles that year were over \$2.5 million) The relative split between the four categories was roughly the same, with a slight increase in the Town share of the overall burden. No fund balance was used to offset the tax rate. Local revenues were \$4,797,183, with that number dropping to \$3,411,961 after the removal of water and sewer revenues. The ending Fund Balance was \$6,356,963.

2016	TAX RATE	TAX LEVY	PERCENT OF LEVY
<b>Total</b>	\$14.79	\$37,246,000	
<b>Town</b>	\$6.06	\$16,351,179	43.90%
<b>Local School</b>	\$5.40	\$14,577,887	39.14%
<b>State School</b>	\$2.31	\$3,559,778	9.56%
<b>County</b>	\$1.02	\$2,757,156	7.40%

This 2016 fiscal cycle saw the average tax burden rise by about 12%, a sharp increase. The numbers above should not have brought that type of increase, but of course these numbers do not tell the whole story. The overall “tax levy” was down by \$685,892 (meaning that the Town raised that much less in property taxes) and the Town levy was down by \$1,140,250. The Town drove the Fund Balance up to \$9,165,185, but then applied \$2,250,000 of that to offset the tax rate. That accounts for the drop in the Town tax levy. The Town also authorized, with voter approval, the utilization of \$325,000 for capital spending directly from the Fund Balance. That pushed the Fund Balance number down to \$6,590,185. We will add, below, some additional data on the NextEra tax payments that will bring a fuller understanding of what is driving the relative tax burden in Seabrook. Local revenues were \$5,560,176, with that number dropping to \$3,908,233 after the removal of water and sewer revenue, as well as other inter-governmental transfers. The Town percentage of the overall levy dropped by 2.23%.

2017	TAX RATE	TAX LEVY	PERCENT OF LEVY
<b>Total</b>	\$16.25	\$39,810,446	
<b>Town</b>	\$6.67	\$17,309,362	43.48%
<b>Local School</b>	\$6.35	\$16,498,709	41.44%
<b>State School</b>	\$2.31	\$3,609,848	9.07%
<b>County</b>	\$0.92	\$2,392,527	6.01%

These numbers also brought us a tax increase, but this time it is easier to see why. The overall tax levy was up by \$2,564,446, with the Town portion up by \$958,183, and the Schools up by \$1,920,822. Once again Town side spending was driven by voter approved capital spending, with that number exceeding \$2 million. Local revenues were \$5,887,849, with that number dropping to \$4,421,747 after the removal of water and sewer revenues and inter-governmental transfers. The Fund Balance was raised back up to \$8,380,584 from the 2016 ending number of \$6,590,185, an increase of \$1,790,399. That increase enabled a Fund Balance allocation of \$2 million to reduce the tax rate, with \$270,000 also utilized for voter approved capital projects. That brought the ending Fund Balance down to \$6,110,584, a decrease of only \$479,601 from the ending 2016 number, despite the utilization of \$2,270,000 of Fund Balance.

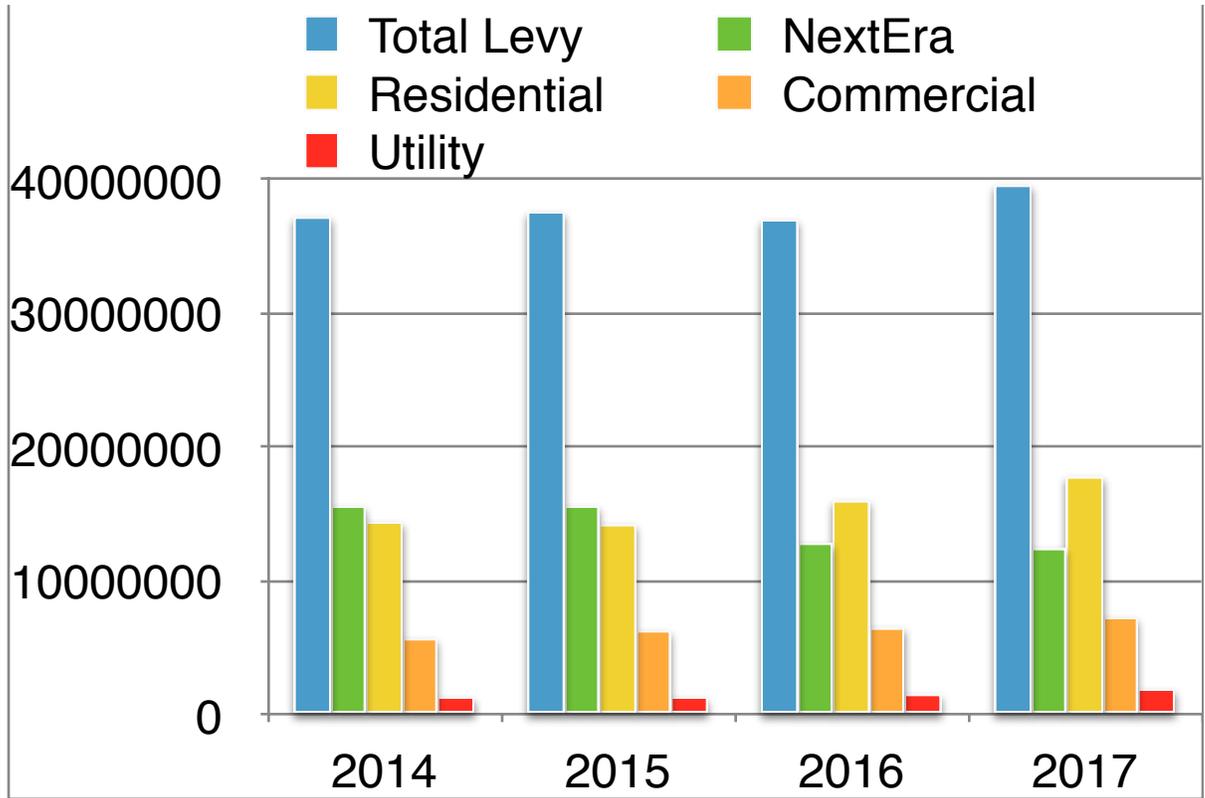
Now let us take a look at NextEra, and other sources of our tax revenues, to see what those numbers tell us. The total levy number will differ slightly from above due to overlay and statutory exemptions, but that difference is insignificant. Let us look at those numbers, which will answer some of the questions raised by the numbers above.

<b>2014</b>	<b>TAX LEVY</b>	<b>PERCENT OF LEVY</b>
<b>Total</b>	\$37,132,224	
<b>NextEra</b>	\$15,630,000	42.09%
<b>Other Utilities</b>	\$1,350,094	3.64%
<b>Commercial</b>	\$5,746,280	15.48%
<b>Residential</b>	\$14,405,850	38.80%

<b>2015</b>	<b>TAX LEVY</b>	<b>PERCENT OF LEVY</b>
<b>Total</b>	\$37,704,890	
<b>NextEra</b>	\$15,630,000	41.45%
<b>Other Utilities</b>	\$1,353,955	3.59%
<b>Commercial</b>	\$6,407,459	16.99%
<b>Residential</b>	\$14,313,476	37.96%

<b>2016</b>	<b>TAX LEVY</b>	<b>PERCENT OF LEVY</b>
<b>Total</b>	\$37,020,380	
<b>NextEra</b>	\$12,880,000	34.79%
<b>Other Utilities</b>	\$1,579,489	4.27%
<b>Commercial</b>	\$6,464,472	17.46%
<b>Residential</b>	\$16,096,419	43.48%

<b>2017</b>	<b>TAX LEVY</b>	<b>PERCENT OF LEVY</b>
<b>Total</b>	\$39,582,296	
<b>NextEra</b>	\$12,380,000	31.28%
<b>Other Utilities</b>	\$1,998,632	5.05%
<b>Commercial</b>	\$7,337,322	18.54%
<b>Residential</b>	\$17,866,342	45.14%

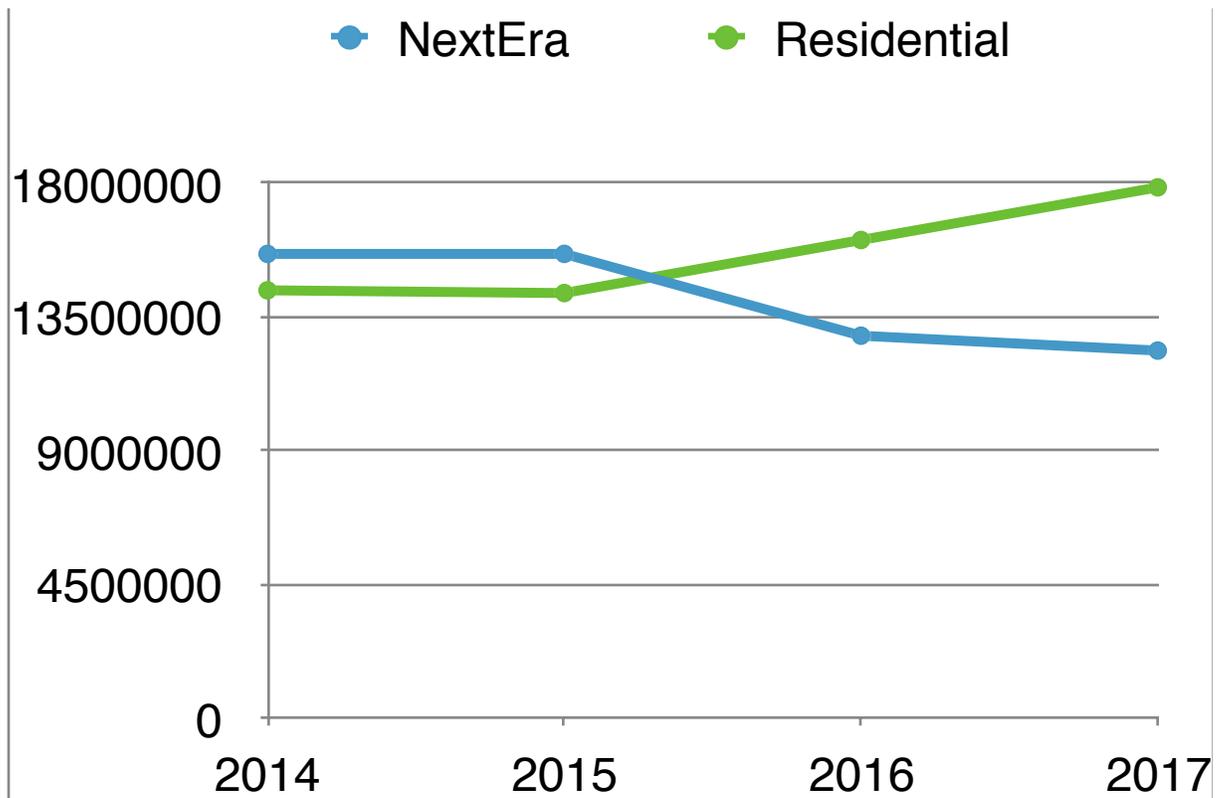


These numbers help us to understand our finances, and pose the fundamental budgetary questions for the future. Let us cut those numbers up a bit, and then determine what questions need to be addressed for the future.

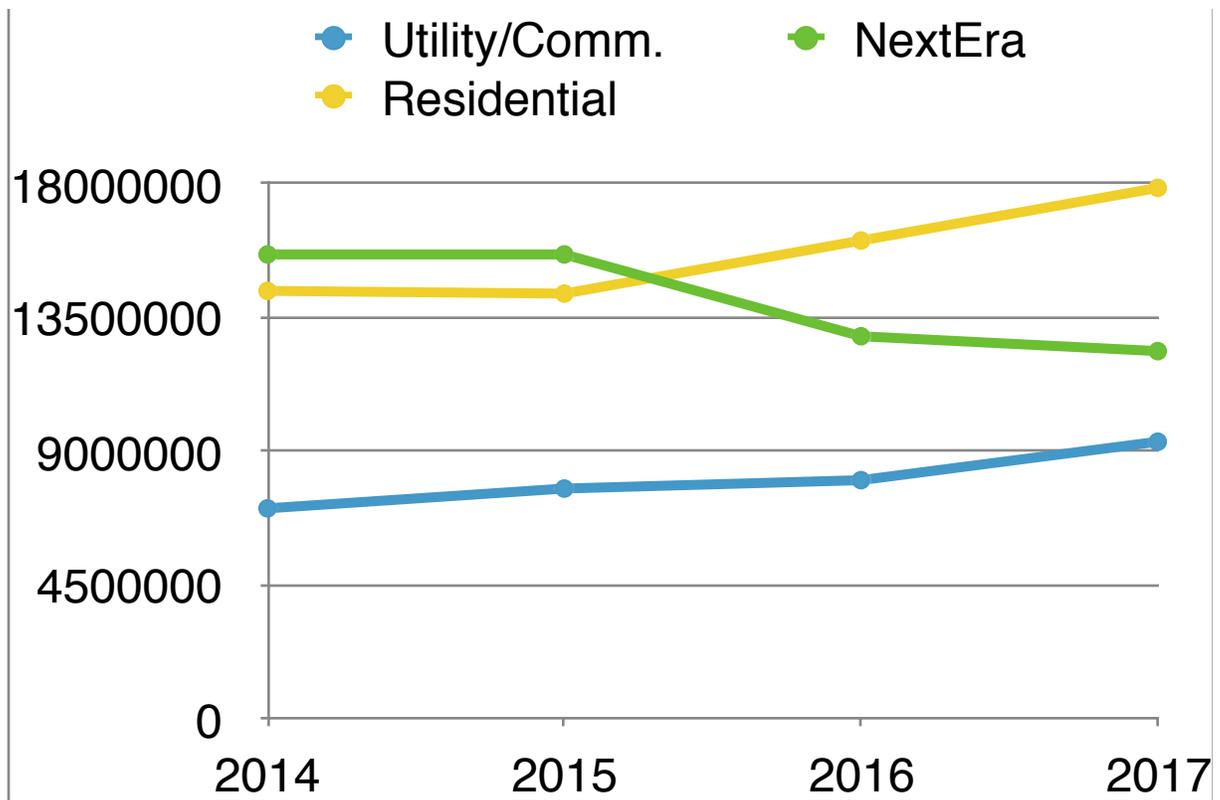
The elephant in the room is NextEra. The above numbers show that NextEra, as a percent of the total tax levy, has dropped from 42% to 31% in just four years. In total dollars that number is \$3,250,000. The bulk of that difference has been made up by the residential taxpayer, who has gone from 38.8% of the total, to 45.14% of the total. In total dollars that amounts to \$3,460,492. In effect, without accounting

for spending increases, the relative tax burden over that period has shifted from NextEra to our residential taxpayers, and to a lesser degree to other utilities and commercial taxpayers. When you combine “other utilities” with “commercial” the percent of the total rises from 19.12% in 2014, to 23.59% in 2017, a 4.47% increase. In total dollars that amounts to \$2,239,580 in increased revenue to the Town from those sources over the 4 years, and in combination that revenue is 23.5% of total revenue in 2017. The next time that someone puts forward the theory that commercial development is a negative factor financially for Seabrook we may want to cite that number.

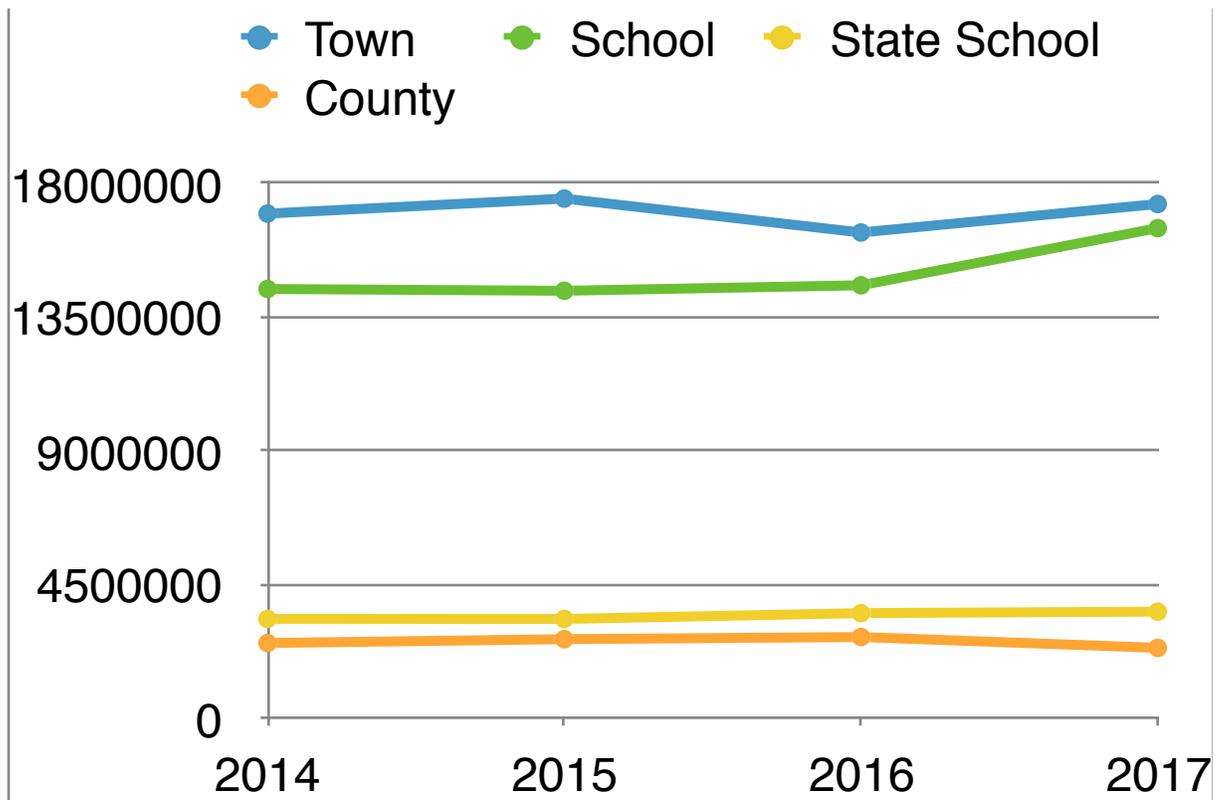
As mentioned previously the total levy has risen by under 2% annually over the measured period. Despite that good spending record we have still seen large tax increases for two years, which these numbers show is attributable to the overall burden being shifted to residential taxpayers from NextEra.



The above chart shows the intersection of NextEra tax dollars with residential tax dollars. As discussed above even with the tax levy declining in 2016 we saw a double digit tax increase. Our data shows that the decline in payment by NextEra between 2015 and 2016 (\$2,750,000) was made up by an increase in residential taxes (\$1,782,943), an increase in commercial/other utility taxes(\$282,547), and a decrease in the total levy of (\$684,510). 2016 is the first year where residential taxes exceeded that paid by NextEra, and that adjustment is the major driving force behind residential tax increases in the last two years. When we combine commercial and other utility into one category we can see the trend lines shown by the below graph. Commercial/Utility is lumped into one category, and although that trend is positive it is not enough to offset the loss of revenue from NextEra.



The report looks at both where we are getting our tax dollars, and where they are going. Let us look at some of the trend lines on where those dollars are going. As shown in the above tables the percentage of the total levy attributable to the Town has dropped from 45.8% to 43.48%, while the school side has risen from 39% to 41.44%. Over the measured period school spending has risen by \$2,044,974, a four year increase of 14.1%, or 3.5% annually. The Town side has seen an increase of \$322,711, an overall increase of 1.8%, or less than 1/2 of a percent a year.



The Town numbers are aided by the application of fund balance, and although those numbers are listed above, by year, let us take a look at them standing alone.

Year	Fund Balance	Fund Balance Used (Tax)	Fund Balance Used (Capital)
2014	\$4,475,677	\$0	
2015	\$6,356,963	\$0	
2016	\$9,165,185	\$2,250,000	\$325,000
2017	\$8,380,584	\$2,000,000	\$270,000

As we look at those figures we see that adding to, and then tactically utilizing the fund balance, has been used to buffer our residents from some of the impacts of the “NextEra shift” in relative tax burden. As we look at this number we can see that the practical effect of this application has been to partially fund the Town CIP, albeit in an indirect way. Let us look at a six year history of Town capital spending, including 2018.

	Capital Spending (Authorized)	Human Service
2013	\$1,333,400	\$165,879
2014	\$2,021,600	\$173,414
2015	\$2,519,709	\$160,487
2016	\$2,153,950	\$110,720
2017	\$2,385,800	\$141,897
2018	\$1,439,500	\$94,611

I have provided, as part of our CIP process last year, a five year history of capital spending in Seabrook. That report will be updated with the 2018 results and provided as part of the CIP process. While looking at capital spending in detail is not the focus of this report, any look at our overall tax burden must take into account how we allocate resources for our capital needs. A more systemic approach, with the goal of smoothing the current ups and downs of capital requests and spending, will have the advantage of allowing us to fund capital needs while attempting to provide a predictable, and affordable, stream of tax dollars to our capital needs. The Budget Committee, in the last cycle, made several suggestions. Two were applied. The first was the creation of “capital funds” designed for specific purposes. (See Appendix B for how this process would work.) The second was the inclusion of smaller vehicle needs into the departmental budgets, utilizing lease finance to provide predictable financial support for the core budgetary needs of departments. (See water and sewer budgets for 2018.) More discussion on how to properly allocate funding for capital expenses should be undertaken as part of the development of the 2018 CIP. (Please see Appendix A for a more detailed look at the 2018 results included in the table above)

A look at the municipal side budgets over the past five years will show us the impacts of capital spending, and how the Budget Committee budget number submitted, debated, and voted on is only part of the story. Here is the five year history of submitted municipal budgets, and the change to that number after the warrant was voted.

Year	Budget Committee Number	MS-232
2014	\$20,220,353	\$21,234,702
2015	\$19,971,001	\$21,837,501
2016	\$21,540,733	\$23,865,403
2017	\$22,374,925	\$24,954,390
2018	\$22,903,403	\$24,437,514

The MS-232 number shows the growth in the budget after inclusion of the warrant articles. It is submitted annually to the DRA, and reflects the true budget after the warrant. It does not reflect the offsets of local revenues, or the application of fund balance or capital account funds. (For a fuller explanation see Appendix C.) It should be noted that some warrant article budgetary impacts are permanent, and would account for the growth in the budget committee number over this five year period. An example would be collective bargaining contracts. (Voters approved three year contracts in 2015 that granted negotiated raises to our employees.) A second driver would be employee health care costs, which are unpredictable, and are a source of both budgetary instability, and a driver of budgetary growth. (The dip in the budget between 2014 and 2015 was possible due to budgetary level funding of departments in combination with a one year decline in our health care costs.) The five year history of employee health care costs are below.

Year	Health Care Costs	% of Bud Com Budget
2014	\$3,230,593	15.97%
2015	\$2,960,812	14.82%
2016	\$2,983,044	13.84%
2017	\$3,461,048	15.46%
2018 (budgeted)	\$3,487,453	15.22%

So what do these town side numbers show us? The overall growth in the “budget committee” number was \$2,683,050 over five years. That is a growth rate of 2.64% annually. The MS-232 number grew by \$3,202,812 over five years, for a growth rate of 3% per year. That number includes capital, and as shown above has been offset by \$4,250,000 in fund balance. Aside from growth in the 2018 budgetary allocations for police and fire overtime, which simply recognized spending that had been occurring but was being financed through other portions of the budget, the Board of Selectmen and the Budget Committee have held our operational budget steady, with no growth save for voted contractual raises, and health care increases. But despite all of the talk on health care from 2014 forward

the obligation has remained somewhat constant (there was a big jump between 2013 and 2014 and between 2016-17.)

One of the numbers that we need to include is what would be called the “new growth” number, representing taxes collected on new construction.

New Growth	Value	Taxes
2014	\$28,500,000	\$434,000
2015	\$68,000,000	\$1,000,000
2016	\$27,000,000	\$400,000
2017	\$15,000,000	\$244,000

### Summary and Conclusions

This report is rich in data, with that data hopefully clarifying the financial challenges ahead, and providing a roadmap for future policy choices. What are those challenges, specifically? If we desire to continue to provide the first rate services that our citizens have become accustomed to then fundamental financial policies for Seabrook need to be decided upon, and implemented. What are the main questions?

1. How do we deal with any potential declines in NextEra tax payments? Do we wish to maintain the same level of services? If so do we wish to deliver them in the same fashion? While a generic question of “should we cut the budget” is almost always answered with a resounding yes, the discussion tends to splinter about where we should impose cuts. One persons budgetary fat is another persons budgetary necessity. This may be the most critical question facing us, but it is not the only one.
2. Do we continue to fund our Capital Improvements Program in the same fashion, or do we move to a method that helps us to “smooth” the capital budget each year? The Budget Committee and the Select Board looked at, and

partially implemented, a new methodology in this past cycle. Should we expand upon that?

3. For every dollar in “local revenues” raised there is one dollar less needed in property taxes. The Board has instructed that management come up with a new business license regimen, which we will do after existing legal issues (Fireworks licenses) are resolved. But the major issue centers around water and sewer revenues, and the rates that provide them. In the reports I have provided to the Board, and which are appended to this report, we see that the taxpayer subsidy to the water system in 2017 was \$749,188, an increase of 43% over 2016. The sewer tax subsidy in 2017 was \$1,089,280, an increase of 11.4% over 2016. In combination the “operating” subsidy is \$1,838,468, which is 8.2% of the total Budget Committee number for 2017. As high as that is the number does not include “capital expenditures” for each Department, which are, in many municipalities, the responsibility of ratepayers, not taxpayers. If capital were included you will easily drive the subsidy over \$2 million annually, and closer to 10% of our operating budget. As an example of the impacts on the tax rate, in 2017, if this \$2 million were available, the tax rate would have gone up by 2%, not the 9.9% increase that we actually saw. When combined with health care costs this subsidy brings that two item total to 23.4% of our total budget in 2017. Those two items alone leave our policy makers with an ever declining portion of the budget that they can actually impact, and puts them into a position of having declining dollars to devote to the actual services that Seabrook residents are accustomed to. It is a recipe for budgetary frustration with our policy makers, and discontent from our taxpayers. The policy choice on that issue is stark. Should we begin to end that subsidy? The Board of Selectmen have identified the issue and ordered a rate study to present options, and we will hear from those consultants about what those options are.
4. Our employee unions have moved to some cost sharing in their contracts, starting with the 2015 Collective Bargaining contracts. Despite that at 15.2% of the budget that number is crowding out other necessary spending, and creating upward pressure on our tax rate. If the percentage of the budget attributable to health care was 12.5% instead of 15.2% the savings in 2018 would be over \$600,000 annually. Such a difference does not necessarily mean higher cost sharing numbers for employees, but rather should entail a partnership that strives to reduce overall health care costs to both employees and taxpayers. That is not an easy road, and the comfort found within the

Health Trust infrastructure makes it even more difficult to achieve real change.

It is difficult to envision substantial changes in employee compensation without some adjustment in this area.

5. Our Board of Selectmen have taken strong steps to exert fiscal discipline, and the numbers contain herein show the impacts of those Board actions. Centralizing purchasing, level funding operational budgets, and building the Unexpended Fund Balance up to over \$9 million in 2016 all are as a result of the Board, and the very conservative fiscal positions they have taken.
6. Finally, as an optimist, I believe the cup is half full. NextEra contributes over \$12 million in tax dollars annually, and I would still prefer to have that tax revenue than not. The shift away from one company contributing the lion share of the tax dollars to our community was always going to come, and that day has arrived. The importance of the other commercial/industrial tax revenue has never been clearer. At \$9.2 million and growing you can see the day, likely within three to five years, when that revenue will exceed that contributed by NextEra.

The policy makers of the community have some difficult choices to make, and I hope our focus is on the big issues facing Seabrook, and not on the small issues that often times create political rancor, but do nothing to advance a larger agenda for the community. Time is a limited resource, and we should spend our time concentrating on the big issues facing Seabrook.