FEBRUARY 6, 2023

FINANCIAL REPORT 2022

EXECUTIVE SUMMARY

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FINANCE REPORT 2022

The annual report covered some critical historical data that shows where our tax dollars come from, and where they are going. While this is an executive summary of that report we can take a short deeper dive into some of the numbers.

The finance report showed us that the 2022 fiscal cycle Beyond the voter approved capital spending the budget, through the standard budgetary process, went up 9%, or $2,182,702. What was the driver of the increase? Let us take a look.

	2021-2022	
Budget Increase		$1,709,207
Police Increase	$421,489	
Fire Increase	$895,412	
Combined Police Fire Increase		$1,316,901
All Other Increase		$392,306

The combined public safety increases constituted 77**%** of the total budgetary increase. When you look at "all other" and measure that against the 2021 budget you will see that all other municipal budgets grew at **1.4%.**

I have attached last year's executive summary to show that this is not a one year issue. The increases within the two public safety departments are essentially reversed from last years report but the aggregate percentage of the overall increase remains over 75%. What that tells us is that the principal budgetary growth factor lies within public safety.

As with last year all other departments have been essentially held flat. Last years report showed a growth rate in the budget for non-public safety departments of **under 1%.** In 2022 that budgetary growth rate **is 1.4%.** You simply cannot squeeze more out of the other departments. It is exceptional budgetary discipline.

WHAT ABOUT FY 2023?

Last years report and summary came after Town Meeting. Through this summary, given a bit earlier, we can look at the proposed budgetary number. The proposed budget number is $30,143,574, an increase of $2,002,567. That increase is still largely driven by public safety, which constitutes 50% of that increase. Increases in Water/Sewer/DPW largely made up the other portion of that increase.

FUTURE FISCAL CHALLENGES

The report is not just meant to be a rehashing of past numbers but instead should identify challenges for policy makers. While the Board has managed to stop some negative trend lines in critical budgetary areas these successes have not completely solved the problems. In past reports we have identified some critical areas.

1. The category of “other revenues” has been addressed by ending the operational subsidy for the water department, and closing it substantially for sewer. For every dollar raised in “other revenues” one less dollar needs to be raised through property taxation. When the Board addressed these issues capital projects for each department were omitted in rate calculation. Both departments need new infrastructure and will have major capital projects in the years to come. Those expenses, as laid out today, will be borne by taxpayers. I will be providing a water report and a sewer report which should spur discussion of the current subsidies going from the taxpayers to the ratepayers. **(Repeat comment)** The 2021 independent audit has flagged the operational deficit in sewer, and so this comment bears repeating.

2. In 2022 we have seen the first reversal of the "NextEra shift" as NextEra saw an increase in value, as well as the first increase in tax dollars paid in many years. They jumped to over $15 million dollars, from $12 million. This is great news for taxpayers, as residential taxpayers saw a net tax reduction in 2022. There is still no new agreement with NextEra but negotiations continue. It is important to note that this increase was driven by large changes in the energy market. We must be vigilant and prepare for the possibility that the energy market may come back down, and deliver another shift onto residential taxpayers.

3. A key number that needs to be highlighted again and again is the total levy (dollars raised through taxation) from 2014 through 2022. The tax levy in that measured time period went up 2.5% annually. It is critically important to note that the **levy number** is what drives taxation, both residential and commercial, in Seabrook. The budget number drives the levy number, but the budget number may be offset by infusions from the fund balance. Between 2014 and 2022 the Select Board utilized $10,395,000 (ten million three hundred ninety five thousand) in fund balance to subsidize the tax rate, or the levy. What that means is that the actual impact of budgetary growth has been mitigated by the Selectmen putting back over $10 million in fund balance.

4. Make no mistake about the numbers. From 2014-2021 the NextEra shift was real, tangible, and in light of the levy increase percentages (at 2.5%) the main driver of increasing burden on residential taxpayers. You have different "classes" of taxpayers, but NextEra, as shown in the report, is in a category by itself. In 2014 NextEra **paid more in tax than the entirety of the residential class of taxpayer.** In 2021 residential taxpayers were paying $9 million more than NextEra in tax dollars, with the percentage of tax dollars paid shifting to residential (residential 38% in 2014 to 51% in 2021 of total dollars raised.)

5. The impact of NextEra is further shown by the 2022 numbers. With the big increase in value and the increase of tax dollars paid by NextEra residential taxpayers in 2022 **got a tax cut.** The NextEra shift was reversed, with major positive implications for residential taxpayers. NextEra is still the elephant in the room.

6. All of the above is not designed to minimize the impact of the budget. The annual financial reports have concentrated on numbers, showing real numbers to help guide

policy makers. In this 2022 summary I will offer a couple of slight editorial comments on the budget.

A. If there is a desire to slow the growth (or reduce) the municipal budget that is indeed possible. But it requires both work, and some difficult choices. What methodologies could be used?

B. Policy makers could direct that budgetary growth (in budget preparation) be limited to a certain percentage chosen by policy makers. That most certainly would contain growth to the listed percentage.

C. The Capital Improvement Plan, filed annually, now describes the prospective method of payment for projects. More time and planning needs to be paid to this plan, and how we pay for projects. Policy makers have attempted to "smooth" gyrations in expense annually by the creation of capital funds. More work in this area is needed.

D. Multi-year budget projections could be worked on, and discussed, well in advance of filings. What we anticipate for future tax revenue from NextEra is but one example of future planning.

E. Although there has been some disagreement on the so called "default budget" the utilization of the default budget as the primary budget document for the Town (by the rejection of the regular budget) is not optimum. That statement is not because the default is lower but because it is not a document that has been developed to meet the needs of the Town, while meeting the needs of our taxpayers. We should work harder, and longer, to develop a budget that does both. (See B)

7. A budget, at its core, is a statement of community values. Let us develop clear and concise budgetary guidelines that reflect those values, and then develop a budget that the community can get behind. There will be disagreements, but those disagreements should not prevent us from doing that job.

As always the goal of the annual report and summary is to spur discussion by policy makers on tax and budget issues facing Seabrook, with a focus on the larger issues in front of the community.