



THE COMMISSIONERS OF ST. MICHAELS
Office of the Town Manager

April 13, 2020

Memo to: COSM, Staff
From: Jean Weisman
Subject: FY 2021 1st Draft Budget Memo updated

This will be a difficult budget year as we will likely see revenues drop from Accommodations Tax, Admissions and Amusement Tax as well as Income Tax as we get through COVID-19 and hopefully come out on the other side and start to heal. The following is general information pertaining to the construction of the Town's annual budget. The format matches the monthly "Budget vs. Actual" report that you receive each month.

The Charter

The Charter states that the Commissioners shall review the budget submitted by the Town Clerk and that they will ensure that the budget:

- provides a complete financial plan for the budget year,
- contains estimates of anticipated revenues and proposed expenditures for the upcoming budget year, and
- provides that anticipated revenues equals or exceeds the total of proposed expenditures.

The Tax Rate and the Constant Yield Tax Rate

Work on the revenue portion of the new budget begins in February when the State Department of Assessment provides the Town with official notice of our real estate assessable base and constant yield tax rate. The constant yield tax rate is the tax rate that the Town would have to charge in order to receive the same amount of real estate tax revenue in the next fiscal year that it receives in the current fiscal year. The Town's current real estate tax (FY2020) is \$.524 cents per \$100 of the State's assessment of the property values. The Town's Constant Yield Tax rate for FY2021 is \$.5251 cents per \$100 of the State's assessment of the property values. The Town's assessable base has decreased from \$ 298,177,696 to \$ 297,580,272, a decrease of \$597,424 in assessable base, which correlates into a decrease of \$3,130 in tax revenues from FY2020 to FY2021 if the tax rate of \$.524 is maintained. In order to generate the same amount of real

estate tax revenue in FY2021 as was generated in FY2020, a real estate tax rate of \$.5251 (the constant yield rate) would need to be assessed.

When the State raises property assessments, the Town receives more revenue from the same tax rate. When the Town's total real estate assessments falls, the tax revenue is lowered even if the tax rate remains unchanged. Thus, in a year when the total assessments rise, if the Town maintains the same tax rate and will consequently receive more tax revenue, the Town is said to have increased its tax rate above the constant yield rate and must advertise and hold a public hearing on the increase unless the increase yields less than a \$25,000 increase. For FY 2021 the State Assessment office has exempted the town from holding a constant yield tax rate hearing.

As you can see from the chart below, the tax rate had dropped \$.19 between FY2011 and FY2014. We had a 1 cent increase in FY2017 and a 6.24 cent increase in FY2108. Our Assessable base had dropped significantly since FY2009 from \$301,557,489 in FY2009 to \$250,837,531 in FY2016 a decrease of \$50,719,958. FY2016 and FY2017 did show upward turn in assessments, although small. The Town was re-assessed in 2016. I was anticipating a jump in assessments as the economy had improved and we had new homes in Marea and on Talbot Street. However our assessable base as provided by the State in February 2017 dropped. The good news was that when the final assessments came in July, our assessable base had in fact increased by \$13,600,216. In FY 2019 we had another significant increase in the assessable base (\$10,984,272). For FY2020 our assessable base increased \$7,699,269. The Town was reassessed this year, and again I was anticipating an increase in our assessable base. However, once again, per the state, the assessable base has dropped by \$574,242. This does not make sense to me with all of the homes constructed at Marea in the past two years, but we shall see once the tax bills come out in July.

Fiscal Year	Total Assessable Base	Homestead Tax Credit Assessable Base	Tax Rate
FY21	297,580,272	33,585,760	.524
FY-20	298,177,696	32,263,704	.524
Actual			
FY 20	294,934,922	29,605,832	.524
FY19	280,566,285	29,590,267	.524
FY18-			

ACTUAL	\$269,582,013	26,344,566	.524
FY18	\$255,981,797	28,309,003	.524
FY17	256,863,220	28,771,278	0.46
FY16	250,837,531	28,995,958	0.45
FY15	248,620,861	30,801,250	0.45
FY14	263,587,102	49,923,093	0.45
FY13	263,476,346	52,251,748	0.52
FY12	261,902,931	70,475,154	0.58
FY11	286,205,625	61,918,435	0.64
FY10	269,199,878	51,393,721	0.64
FY09	301,557,489	51,101,805	0.64
FY08	259,930,270	42,179,536	0.64
FY07	231,944,852	35,492,424	0.64
FY06	204,582,652	28,924,562	0.64
FY05	177,184,850	21,336,675	0.64

The Budget

We have prepared the budget in the same format as the monthly “Budget Vs. Actual” reports that you receive, generated from our accounting software. The Town has still has one budget which is broken out into four parts: the General Fund Budget, the Capital Fund Budget, the Water Fund Budget and the Repair and Replacement Fund.

- The General Fund Budget contains general revenues and operating expenditures for the town.
- The Capital Fund Budget provides for capital expenditures and shows how those expenditures will be funded. The capital expenditures may be funded in any of four ways:
 - From the repair and replacement fund
 - grants
 - loans
 - from the general fund.

- The Water Fund Budget is “Business-type” fund. While the funds for the Water Department are not actually kept separate from the General Fund, all Water Department funds are accounted for separately.
- The Repair and Replacement Fund Budget recognizes the funding for and expenditures related to the repair and replacement of town assets as defined in the Reserve Study that was done by Reserve Advisors in 2016-2017.

Revenues

In the 1st draft of the FY 2021 budget, the town’s tax rates are set the same as FY 2020 as follows:

Real Estate- \$.524 per \$100 of assessed value of real estate. Each penny on the tax rate generates \$29,758.

Personal Property (Inventory Tax) - \$.00 per \$100 of assessed value of business inventory

Utilities - Personal Property (Corporate) - \$1.60 per \$100 of assessed value

The remainder of our revenue comes from state and local funding, fees for services, fines, grants, income on investments and rental agreements.

The state provides revenue to the Town under the following appropriations: Highway User Revenue (fully funded for FY2021), Police Protection Grant, Critical Areas Grant. The State also provides us with current year revenue projections for Income Tax but does not project for the next fiscal year. Income tax is a difficult number to budget. We receive the tax collected from the prior tax year.

While Talbot County does provide the Town with a projection for Accommodations Tax, the Accommodations Tax and Admissions and Amusements Tax revenues are directly related to actual room sales and admission and amusement charges. The Housing Authority provides the town with a Payment In Lieu of Taxes (PILOT) each year as a part of their cooperation agreement with the Town. We have received some of the back PILOT payment in several years., The Town investment income is the interest earned from the newly created Repair and Replacement Fund, the Capital Projects Fund, the General Fund, the Water fund and the newly created Contingency Fund. These funds are held in the Maryland Local Government Investment Pool. State law and the Town’s own investment policy restrict the way in which local governments may invest taxpayers’ money. These accounts have seen a name change as we have moved forward with the implementation of the Reserve Study.

The Town also receives fees for miscellaneous licenses, as well as permit fees, and parking tickets. The county provides a grant to pay for school crossing guards and the state provides a small grant to help administer the Critical Area law.

The town receives the following rental income:

- Verizon, T-Mobile, Sprint and AT&T pay about \$214,000 per year in rental for space on the south water tower. (Note: the North Tower is not suitable for such rentals. The shape of the tower makes it more difficult to install the antennas and the Town's easement for the property does not allow for installation of equipment other than that necessary to operate the Tower.)
- Boat Slip and Kayak rack rentals generate about \$28,000
- Rental of 109 S. Talbot would generate an annual rent of about \$44,841, which is subject to increase in November 2020.

In preparing this year's budget, I have attempted to account for a significant revenue shortfall that we may see from COVID- 19. I have reduced the amount of revenue from the Accommodations Tax, Income Tax, and Admissions and Amusement Tax. We will not know the full impact of the virus for some time, but I feel as though I have been conservative in my revenue estimates.

Expenditures

Expenditure projections are prepared after a thorough review of each line item and a review of historical figures and projections. With the exception of contractual costs, all costs may be adjusted. Once the COSM have instructed me as to personnel costs they want to see in the draft budget and approve the general parameters of the Town's operations, the Commissioners are (hopefully) left with discretionary funds which may be:

- Put into savings, known as "Prior Years' Reserve" or the Repair and Replacement Fund;
- Put towards requests from department heads
- Invested in capital projects;
- Donated to outside agencies;
- Used to fund any other expenditure the COSM deem appropriate.

When there is a surplus of funding projected, the COSM may also elect to cut the Real Estate, Personal Property, or Utilities tax rates.

Department heads prepare not only their operational budgets but also a list of capital needs for their departments. The Commissioners also receive requests from outside agencies for funding.

In FY2012 & FY2013 the Commissioners voted to make the Community Pool and SMYLE (St. Michaels Youth and Law Enforcement) and the St. Michaels Museum, a separate line item in the budget under Parks and Rec, the Police Department, donations to outside agencies, respectively. In FY 2014 the Commissioners voted to make the St. Michaels Library a separate line item, and in FY2015 added the St. Michaels Museum and the St. Michaels Community Center as separate line items. In the past the Commissioners also adopted resolutions to set the payments for both the St. Michaels Volunteer Fire Department (Resolution 2007-03) and the St. Michaels Tourism Board (Resolution 2006-32). To compensate for some of our lost revenue from tourism, I have reduced the amount that we spend on Tourism and Communications from \$175.9K to \$150K. I'm not sure this is the best time to do this as we will need to spend money to get people coming back once the virus has passed, but feel we have to make up for the lost revenue in some way.

The other outside agencies who have received funding in the past are:

- Talbot County Arts Council
- Talbot Partnership
- SMASH
- Neighborhood Service Center
- Stories of the Chesapeake

This year we have also received request for funding from the St. Michaels Rotary for Fireworks \$5,000.

Current long term debt includes:

- \$1.2 million dollar, 40 year loan from Farmers Home Administration for a water system rehabilitation from 1980 (balance 6/30/2019 was \$206,693)
- \$179,553 balance on Interfund loan for the construction of the north water tower. (balance 6/30/2019 was \$179,553)
- \$1.17 million dollar, 20 year loan from MDE for the arsenic removal system. (balance 6/30/2019 was \$724,831)
- \$205,686 as of 6/30/19- loan from MDE for arsenic Removal II twenty year loan at .7%-.

Water loans are accounted for in the Water Department Budget

Capital Projects:

- At this point staff is working on budget figures for potential projects. This list will be derived from the Reserve Study and staff suggestions, and from suggestions that have been mentioned or discussed in town meetings as well as citizen input. If you have any projects for which you would like to see pricing, please let me know.
- This draft does not include debt service on the new town office. I would anticipate that we will have interest payments on a construction loan which at this point would be

approximately \$50,000. We have that money budgeted in FY20 and can move it forward as prior year reserves to fund construction debt service if you would like for FY21.

General Notes on Budget Construction:

- A. The working budget has been combined into one document
 - 1) The General Fund Budget includes the Capital, Repair and Replacement and Water Budgets are adopted by Ordinance as “the” Budget.

- B. The budget must balance.
 - 1) If expenditures exceed income:
 - a) Raise the tax rate; and/or
 - b) Cut the expenditures; and/or
 - c) Find new funding; and/or
 - d) Take funds from Prior Years’ Reserve

 - 2) If income exceeds expenditures, put the excess into Prior Year’s Reserve, the Repair and Replacement Fund, or cut tax rates.

- C. Prior Years’ Reserve is not an actual account. The term is used to identify funds that were not spent in past years and which may or may not have been designated for a specific expense.

- D. The first draft of the budget is constructed using the following information:
 - 1) Information on certain revenue projections from State agencies (such as tax receipt projections)
 - 2) Historical data on revenues (such as Accommodations Tax based on the revenue in the past 4 quarters);
 - 3) Assessment of spending for each line item in each department. This is done on a “performance-based” process rather than an historical-based process.
 - 4) Evaluation of expected needs in the upcoming year.
 - 5) Investment analysis. This is done by evaluating the past year’s rates and in consultation with the staff at Maryland Local Government Investment Pool, where all of the Town’s investments are located. The rate had been hovering at 2.2% this fiscal year, but dropped to 1.63% in February, and I am waiting on March figures.
 - 6) COSM have not made a decision for amount of raises for FY2021, so the first draft includes existing FY 2020 numbers. MML reports that the CPI for 2020 is 2.3%. I will have the cost of potential increases by the time we meet. Health insurance rates held steady at our renewal in December of 2019, although the plan is less rich and our deductibles increased from \$2000 individual, \$4000 family – to \$2500 individual and \$5000 family, along with higher co-pays. The Commissioners fund the deductibles through a Health Reimbursement Account.

- 7) The assessment of the costs of any current or probable law suits or other legal actions.
- 8) The 1st draft of the budget shows revenues exceeding expenditures by \$105,460. I have gone through all of the expenditures and made cuts wherever I thought possible, and it does include funding of 200,000 to the Repair and Replacement Fund.
- 9) I have included revenue for the Speed Cameras of \$100,000 at this point. From September – February we have seen \$49,000. We had been seeing monthly increases, however, the monthly revenue from January to Feb dropped from \$19,700 to 11,400, and \$8,700 in March We are seeing the amounts trend down as people adjust their behaviors.
- 10) LEOPS is included in this budget
- 11) The Town of St. Michaels, like the State of Maryland, runs on a fiscal year calendar of July 1 through June 30. Once a new budget is adopted, preparation begins immediately for the budget for the next fiscal year. The general calendar for budget preparation looks like this:
 - Monthly reviews by financial staff and department heads to monitor spending and track the progress of revenues. (Budget vs. Actual reports).
 - Quarterly:
 - a. Review of the comprehensive general ledger to check postings
 - b. Review quarterly payments and revenue sources
 - c. Estimate final annual numbers with regard to possible amendments
 - February:
 - a. Staff review of six-month Budget vs. Actual report
 - b. Department heads submit draft budgets to the Town Manager
 - c. Staff production of first draft of new budget begins
 - March
 - a. COSM work sessions begin:
 - i. Mid-year assessment of the current fiscal year
 - ii. New budget review and overview of projections for the upcoming fiscal year
 - iii. Determination of draft compensation rates for new fiscal year
 - March- April
 - a. Public work sessions on current draft of budget
 - b. Public hearing on final draft of budget
 - c. Public hearing on tax rate if the Constant Yield tax rate is not adopted
 - April-May
 - a. Tax rate is adopted prior to Talbot County's deadline for production of the tax bills (usually prior to May 1)
 - b. Final work sessions on the budget (if needed)
 - c. Budget is adopted- Usually late April.

You will be holding two lengthy budget work-sessions back to back April 14th and April 16th with the public hearing scheduled for later in April and possible adoption following. Tuesday

COSM Budget Memo

April 2, 2020

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April 14th will be the budget overview, Administration, Communications, Planning & Zoning, Police and Public Works and Water. I would suggest you do personnel on April 16th. I will hit the hi-lights but do not plan to go over every line item. Please review and ask about any line items for which you have questions. April 16th you will have outside agencies and finish up personnel, and hopefully be able to finalize the budget for public hearing.

If you have any questions or concerns that I can answer in advance please let me know.