

TO: Honorable City Council Members
FROM: Mayor Michael T. Foley
DATE: April 26, 2021
RE: FY 2022 Budget Message

We are in very strange and challenging times. Initiatives at the State and local levels to protect the health and safety of all residents during the COVID-19 pandemic are significantly impacting all aspects of our daily lives, though we are optimistic that with vaccines being distributed and restrictions strategically being lifted, a return to normalcy is on the horizon. I continue to be highly impressed and grateful for the creativity and commitment demonstrated by our Municipal & School leadership and staff. We have identified and implemented innovative ways to conduct operations and deliver necessary services to residents & businesses while simultaneously taking appropriate precautions to keep employees and the general public as safe and healthy as possible. Everyone should be highly commended and I know our community appreciates these efforts.

As you can see, our community has been presented with challenges in many areas, and challenging times call for bold and decisive leadership. We are now more than a year into a devastating public health crisis that has caused more than 560,000 deaths nationally, crippled the operations and finances of many of our residents & businesses, and dramatically altered operations for many of our educational and social institutions. Here in Westbrook, we have ample evidence of the struggles experienced within our community. Unemployment rates have remained in the 10% range and General Assistance is serving a record number of clients, more than 50% the number served in the prior year. In addition to rental assistance, we are now receiving applications for mortgage assistance from families in danger of losing their homes. Our businesses and public schools have been forced to operate remotely and the delinquency rate for property tax payments has doubled during the period of the pandemic. Socially and economically, many of our residents and families are struggling, as the cost and availability of essential goods and services have skyrocketed.

Given all these factors and the uncertain outlook for the near future, this is not the time to add to the financial burdens of our residents and businesses. In our personal finances, if income declines or costs increase we must make adjustments, and for the last and current budget cycles for our community we need to make adjustments as well. Therefore, prior to the start of the annual budgetary processes for both municipal departments and the schools, I provided clear and consistent guidance that this was not a time to increase property taxes and asked that all departments build their budgets with no spending increases for the coming year. This approach was supported by the City Council and I appreciate their support as we collectively navigate these challenging times.

The current FY 21 budget for municipal departments reflected no spending increase from the prior year. Many additional cost savings measures have been implemented, including the elimination of nine (9) positions, hiring and spending freezes and the elimination of three (3) more positions during this fiscal year. All this was done to enable the City to hold the line on spending levels. In compliance with this directive, municipal budget requests for FY 22 cumulatively reflect a **\$66,547 decrease** in total spending, and a **\$0.35 reduction** in the municipal portion of the property tax rate.

However, the budget request we received from the Westbrook School Department called for a \$1,365,488 increase in spending over the current year and would alone necessitate a \$0.69 (7.2%) increase to the City's property tax rate, one of the largest in recent decades. To receive increases in both spending and property taxes during a time like this is very concerning.

Not all members of our community can afford a property tax increase that many of us could or would be willing to absorb. Given the economic challenges that our community, state, and country face as we recover from a potential recession, we have witnessed first-hand how our businesses and residents struggle to make ends meet. As Mayor, I must constantly evaluate what our community needs against what we can financially bear, attempting to strike a balance of all community needs. The evidence of this past year clearly demonstrates that we should work to avoid any increased taxes in the coming year.

Decades of economic studies show that reducing the harm of recessions requires expansionary monetary and fiscal policy. For local governments like Westbrook, this means avoiding tax hikes while focusing expenditures on critical programs, as we have done in the past. Any attempt to offset declining revenue or increased costs through higher taxes would be the most expensive way of closing the gap. Pursuing tax hikes during the COVID-19 pandemic would diminish our chance of a strong recovery. In addition, our economy would likely continue to struggle, leading to prolonged stagnation in City finances, risking more lost time due to poor financial choices.

To avoid spending cuts to programs that many of our community members rely on, and to avoid potential tax hikes that could hamstring our economy as it attempts to recover, we need to make difficult choices. Ultimately, any increase in taxes would most adversely affect the most vulnerable here in our community.

However, this is not a time for divisiveness or public discord for our community. We must set our differences aside and cooperate to find a fair, equitable and affordable solution to this challenge. I have conferred with many trusted community leaders and have spent the past weeks working with our team to craft a workable solution which I am now presenting to the City Council as the Mayor's budget proposal for FY 2021-2022.

This financial plan contains three key components:

1. The continued utilization of the City's available fund balance to help mitigate the impacts of revenue losses, which began with the current year budget and will be incrementally phased out over a three-year period.

2. A reduction of \$470,000 to the proposed \$1,365,488 school spending increase which still provides for a \$895,488 (2.2%) increase in funding over the current year. The school spending reduction is actually \$420,000, as the City will provide \$50,000 in our Capital Improvement Program to cover the costs of capital investments not eligible for federal funds, therefore they can be removed from the school budget.
3. A property tax rate increase of \$0.21 (1.2%). We feel we can justify this modest growth in this year's tax rate due to last year's \$5,000 increase in the Homestead Tax Exemption, which resulted in an \$89.30 tax bill reduction for eligible homeowners. Even with a \$0.21 increase in the FY 22 rate, homeowner's total annual tax bill will be lower than the previous year's property tax bill.

This plan effectively shares the solution among three parties - the City (providing additional use of available fund balance), the School Department (reducing a portion of their proposed spending increase), and the Property Taxpayer (absorbing a modest increase to the property tax rate). The budget also proposes to further lower the age eligibility for the Senior Property Tax Assistance Program from age 68 to age 65, extending the reach of the program to more seniors to help absorb any adverse impacts of any increase in the property tax rate.

While this balanced compromise responsibly addresses our immediate issues, we continue to have an unsustainable business model for the cost of local government services. In addition to reexamining how we spend the public's tax dollars for education and municipal services, we also must address how we raise funds to pay for these essential services. We are working on regional and state-wide initiatives for a more equitable allocation of state resources, like sales and income taxes, back to the local jurisdictions that are responsible for delivering these services. As your Mayor, I have been working with other local elected officials from throughout the State of Maine in advocating for the Governor and State Legislature to honor their current legal obligation to provide funding to cover 55% of the cost for K-12 public education services and to redistribute 5% of their sales and income tax revenue back to the local communities. With improvements in these funding sources, this will help our communities to better manage growth in the property tax and allow us to continue to deliver critical services without drastic impacts.

This FY 2022 budget proposes total spending of \$73,419,663, which is up \$1,027,264 (1.4%) over the current year. Total revenue of \$32,473,036 is down \$411,477 (1.13%) below the current year. The net need from property taxes totals \$40,946,627, which is an increase of \$840,880 (2.1%). Based on City-wide assessed valuation of \$2,266,198,732, which represents growth of 0.9% in the past year, this budget yields a projected property tax rate of \$18.07 for an increase of \$0.21 (1.2%) over the current year's rate. We are thankful for the great economic growth here in the community which helps us mitigate growth in the property tax rate, and we look forward to additional planned growth in the future.

Investing in our schools and municipal services is important to the economic development of our community. At the same time, it is also important to have a stable property tax rate that residents & businesses can manage. Going forward, we will plan to develop budget guidelines with support of the City Council that call for modest & manageable tax increases on an annual basis.

I am hopeful that our community can support this fair and balanced budget proposal. Here in Westbrook we are strong, and following these challenges, our community will be stronger. I am very optimistic for our future following this crisis. I look forward to working with members of the City Council, School Committee, and our residents & businesses to pass a balanced budget proposal for our community.

The City Council's Finance Committee has scheduled budget review sessions on Monday, April 26th and again on Monday, May 3rd here at the Performing Arts Center immediately following City Council meetings. The budget is scheduled for first reading at the City Council meeting on Monday, May 10th with final approval consideration on Monday, May 17th. A referendum on the School Department portion of the budget is scheduled for Tuesday, June 8th.