

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. Although this report gives us a view through 2019 we are in the middle of a pandemic that is forcing some substantial changes on us as we navigate the through the 2020 fiscal cycle. These changes will need to be considered as we prepare for the FY 2021 budget.

The numbers in the below table are the total dollars raised through property taxes in Seabrook for the years 2014-2019. As you can see the total "levy" declined by \$971,392 in 2019. That is the number that is the true barometer of the overall tax burden in Seabrook, and means that there was a true property tax cut in Seabrook in 2019.

Dollars Raised Through Taxation	Total Tax Levy
2014	\$37,103,286
2015	\$37,677,692
2016	\$36,999,500
2017	\$39,810,446
2018	\$41,619,442
2019	\$40,648,050

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 these years by \$3.5 million dollars, a 9.5% increase, or a 1.9% annual increase. The amount of tax dollars required to be raised comes from the budget, with the addition of warrant articles (capital spending) less the amount of "local revenue" raised, and the application of "fund balance" to subsidize the tax rate. Local revenue includes water and sewer revenues, I have attached the 2019 water report, and the 2019 sewer report. As we look at the 2019 number we can see that it was impacted greatly by the increase in overall local revenues, which went from \$5,041,131 in 2018 to \$9,042,058 in 2019.

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
Total	\$15.27	\$37,103,286	
Town	\$6.37	\$16,986,651	45.8%
Local School	\$5.42	\$14,453,735	39%
State School	\$2.52	\$3,366,006	9.9%
County	\$0.96	\$2,555,394	6.89%

In 2014, including water and sewer, our “local revenues” were \$5,885,678. The Fund Balance at the close of 2014 was \$4,475,677, and no fund balance was applied to offset the tax rate. The combined percentage for education was 48.9%.

Let us look at the same numbers for 2015.

2015	TAX RATE	TAX LEVY	PERCENT OF LEVY
Total	\$14.79	\$37,677,692	
Town	\$6.29	\$17,491,429	46.42%
Local School	\$5.17	\$14,393,160	38.20%
State School	\$2.37	\$3,363,153	8.93%
County	\$0.96	\$2,684,150	7.12%

Overall the Town number rose by \$504,778, which was the bulk of the increase in the total tax levy, which rose by \$574,406. 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. The ending Fund Balance was \$6,356,963. The combined percentage for education was 47.13%.

2016	TAX RATE	TAX LEVY	PERCENT OF LEVY
Total	\$14.79	\$36,999,500	
Town	\$6.06	\$16,351,179	44.19%
Local School	\$5.40	\$14,577,887	39.40%
State School	\$2.31	\$3,559,778	9.62%
County	\$1.02	\$2,757,156	7.45%

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 \$678,190 (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%. The combined educational percentage was 49.02%.

2017	TAX RATE	TAX LEVY	PERCENT OF LEVY
Total	\$16.25	\$39,810,446	
Town	\$6.67	\$17,309,362	43.48%
Local School	\$6.35	\$16,498,709	41.44%
State School	\$2.31	\$3,609,848	9.07%
County	\$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 \$2,810,946, 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. The combined educational percentage was 50.51%.

2018	TAX RATE	TAX LEVY	PERCENT OF LEVY
Total	\$16.25	\$41,619,442	
Town	\$7.00	\$18,893,219	45.40%
Local School	\$6.22	\$16,767,508	40.29%
State School	\$2.13	\$3,537,626	8.50%
County	\$0.90	\$2,421,089	5.82%

This is the 2018 data, and it requires some explanation and analysis. The total “levy” (the amount raised by taxation) rose by \$1,808,996, or 4.5%. The total school portion of the amount raised by taxation is \$20,305,134, or 48.79% of the total. The Town percentage, as shown in the above table, is at 45.4%. In 2018, on a year to year basis, the percentage of the total levy attributed to schools declined slightly, while the Town percentage was up slightly. If we look at the data from 2014 the breakdown between that year and 2018 has essentially stayed the same. In 2018 local revenues were \$5,041,131, and the authorized expenditure from the fund balance was \$975,000 (\$495,000 to subsidize the tax rate, \$480,000 to fund the warrant article for the sewer outfall pipe.) The NextEra assessment for 2018 led to a tax bill of \$12,500,000, up from \$12,380,000 in 2017, as there was no agreement at tax setting time. A three year deal was struck in 2019 (that included 2018) at \$36,000,000, which has an implication for how we look at the overall tax levy for 2018. This agreement will also have ramifications for 2019. We will further explore those issues in the NextEra portion of the report.

2019	TAX RATE	TAX LEVY	PERCENT OF LEVY
Total	\$15.75	\$40,648,050	
Town	\$6.57	\$17,950,073	44.16%
Local School	\$6.21	\$16,956,127	41.71%
State School	\$2.08	\$3,560,050	8.76%
County	\$0.89	\$2,440,800	6.00%

Here are the 2019 numbers, and they break down the tax levy numbers discussed at the top of the report by category. We see a decline in the town portion of the tax levy, from \$18,893,219 down to \$17,950,073, a decline of \$943,146, which essentially accounts for all of the decrease in the overall tax levy. Based on that the total percentage of tax dollars raised going to the Town declined by 1.24%, while the combined school percentage went up by 1.68%, with the schools taking over 50% of all property tax dollars raised in 2019. It is worth noting here that the goal of the Board of Selectmen was to end the massive subsidy going from the taxpayer to water and sewer users, and that has largely been accomplished. The tax rate, and the overall tax levy, for 2019, has been stabilized.

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.

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

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

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

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

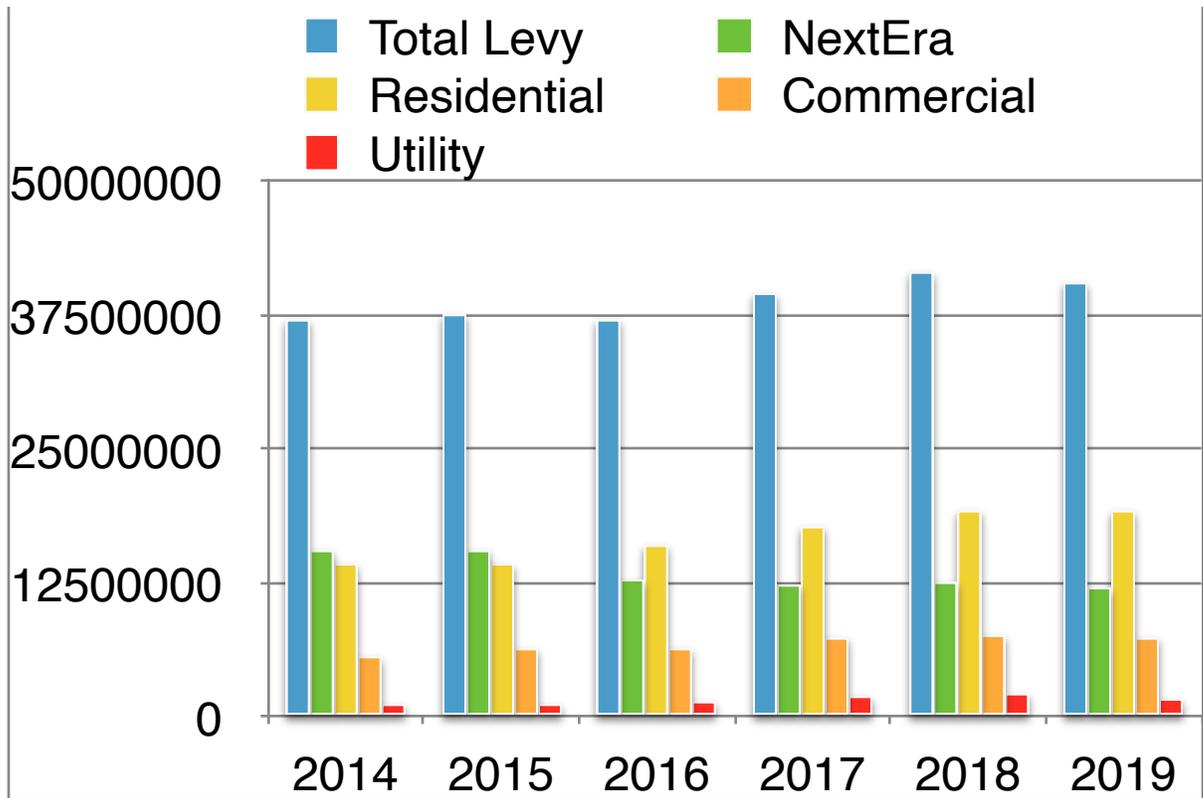
2018	TAX LEVY	PERCENT OF LEVY
Total	\$41,619,442	
NextEra	\$12,500,000	30.03%
Other Utilities	\$2,121,841	5.10%
Commercial	\$7,604,466	18.27%
Residential	\$19,393,143	46.60%

In light of the eventual agreement with NextEra their number will be converted to \$12,000,000 in 2019, with the Board determining that abating the \$500,000 overage assessed in 2018 would be the best way forward. That abatement was paid in 2019. If NextEra is calculated at \$12,000,000 then their percentage of the levy drops to 28.8%. That would be a reduction of 2.48% in their relative tax burden, which we have pushed out to 2019. That is a substantial reduction year to year, and a huge reduction from the 42% they paid in 2014. Again that impact has been pushed into 2019 but it continues the trend of NextEra paying less of the overall tax burden, and residential taxpayers picking up that difference. (The NextEra Shift) That NextEra Shift saw the residential tax levy increase by \$1,526,801 in 2018, which is 84% of the total levy increase. With NextEra paying less overall that percentage has largely been shifted to the residential category.

2019	TAX LEVY	PERCENT OF LEVY
Total	\$40,648,050	
NextEra	\$12,130,000	29.84%
Other Utilities	\$1,850,585	4.55%
Commercial	\$7,333,334	18.04%
Residential	\$19,334,132	47.56%

As mentioned the 2019 tax year managed to slow some trends that were not favorable for the Town, and especially to residential taxpayers. The actual dollars paid by residential taxpayers actually **declined** in 2019 (residential tax levy) although that category slightly increased as a percentage of the overall levy. (Due to the large decrease in the overall levy) The NextEra percentage increased slightly, stopping, at least for 2019, the steep decline in their percentage of the overall levy. (\$12,000,000 on the negotiated tax agreement, and \$130,000 for ancillary properties.) Another item of note is the decline in the category of other utilities, which is a function of state legislation laying out valuation methodology for these utilities, as well as some negotiated settlements of long standing tax cases in this category. Even with that the combined commercial/utility category accounted for \$9,183,919 or 22.59% of all property tax dollars raised in Seabrook.

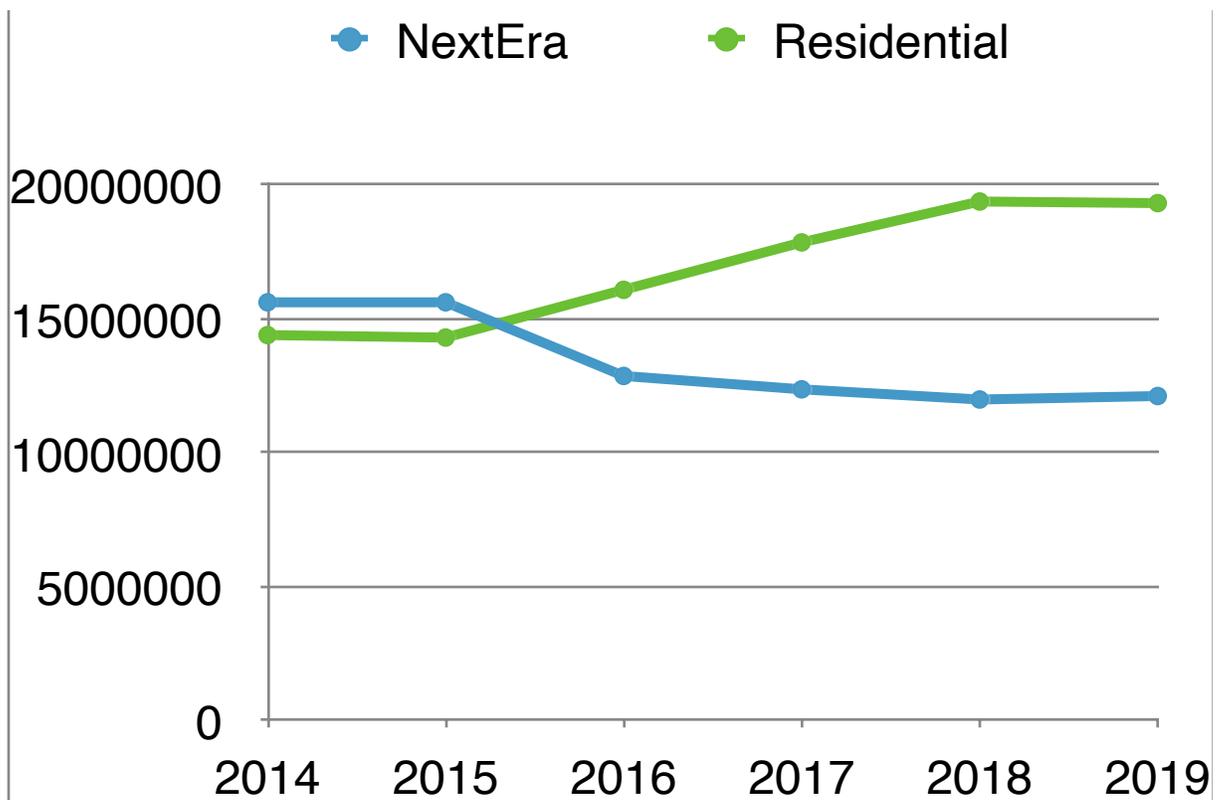
These numbers help us to understand our finances, and help pose the fundamental budgetary questions for the future. Let us cut those numbers up a bit, and then determine what questions need to be addressed for the future.



The trendiness have been evident through the measured period. The “NextEra Shift” has been the predominant issue facing us through 2019, although not the only issue. Past reports and discussions, especially with the Board and the Budget Committee, have centered on managing this shift in an orderly fashion, in an attempt to protect residential property tax payers from huge year to year tax increases. The above numbers show that NextEra, as a percent of the total tax levy, has dropped from 42% to 29.84% in just six years. In total dollars that number is \$3,500,000. The bulk of that difference has been made up by the residential taxpayer, who has gone from 38.8% of the total, to 47.56% of the total. In total dollars that amounts to \$4,928,282. 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” that combined category increases as a percent of the total from 19.12% in 2014, to 22.59% in 2019, a 3.47% increase. In total dollars that amounts to \$2,087,545 in increased revenue to the Town from those sources over

the 6 years. That is a vital component of the overall revenues of the Town of Seabrook.

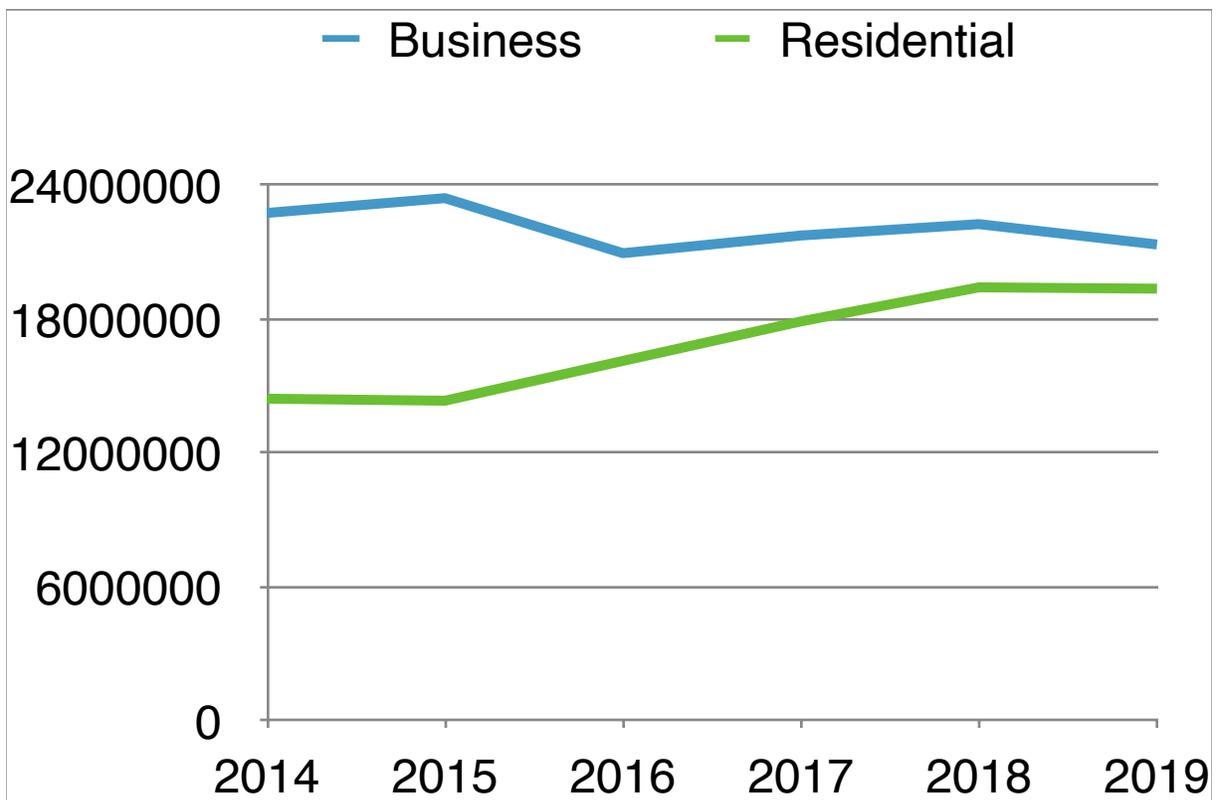
As mentioned previously the total levy has risen by 1.9% annually over the measured period. That number is extraordinary, and reflects a strong commitment by the Board of Selectmen to manage the annual budget process in a fiscally conservative way.



The above chart shows the intersection of NextEra tax dollars with Residential tax dollars. In 2016 the residential category surpassed NextEra in terms of total dollars, and percentage, for the first time, as part of the discussed NextEra shift. 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 negative trends that were accelerating were blunted

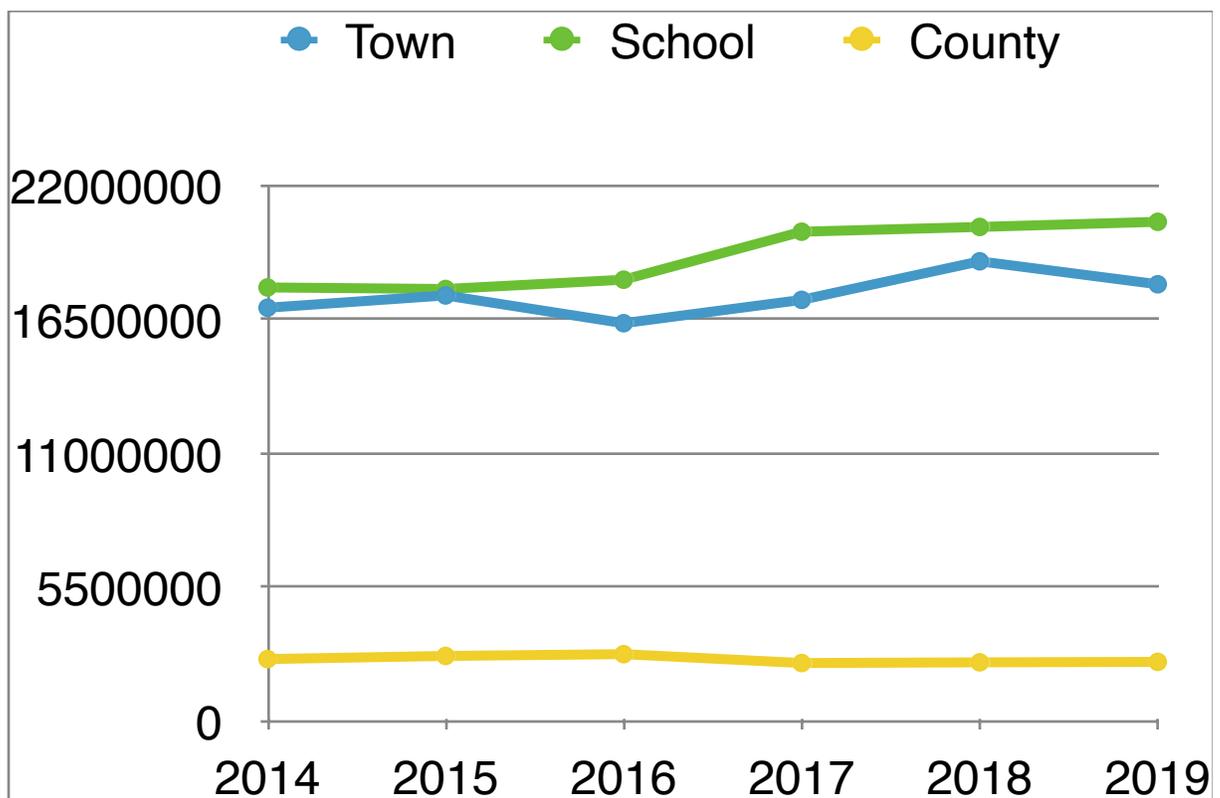
successfully in 2019, but have the potential to reaccelerate without careful planning.

One data set that we have not examined in prior reports is a relatively simple one, comparing residential dollars raised in comparison with all other (business) categories combined. The trend lines are contained in the below graph, and though they are moving towards a higher burden on residential the overall residential percentage is below 50% of the overall levy. The 2019 breakdown has overall the overall commercial percentage of the overall tax burden at 53%. That is a very attractive number for Seabrook.



2019		
Total Levy	\$40,068,050	
Business	\$21,313,919	52%
Residential	\$19,334,132	48%

The report looks at both where we are getting our tax dollars, and where they are going. The below graph combines local and state education spending into one category. Over the measured period combined school spending has risen by \$2,696,436 a five year increase of 15.13%, or 3.02% annually. The Town side has seen an increase of \$963,422, an overall increase of 5.6%, or 1.12% annually. In municipal finance a rate of increase in the tax levy of 1.12% is not only outstanding but very rarely seen. That number reflects collective bargaining increases, health care costs, and typical standard cost increases. It is difficult to say that number could be squeezed any tighter without cutting services.



The Town has driven up, on an annual basis, the unexpended fund balance, and has used that fund balance to both subsidize the tax rate as well as to fund capital expenses. As we look at those figures in the below table we see that the successful building of fund balance has allowed the use of \$5,495,000 to subsidize the tax rate, as well as \$1,349,464 to fund critical capital projects. (\$6,844,464 in total.) The 2019 Fund Balance number is drawn from the MS-232, and is not official until the completion of the independent audit, due in the late September time frame. Fund balance is a major success story for the Town, and has been a significant factor in our ability to hold down the tax levy numbers.

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
2018	\$7,600,025	\$495,000	\$480,000
2019	\$6,569,786	\$750,000	\$274,464

Let us look at a seven year history of Town capital spending, including 2019.

	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
2019	\$3,864,700	\$95,130

I have provided, an eight year history of capital spending that includes 2019 in a separate report.

A look at the municipal side budgets over the past six 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 six year history of submitted municipal budgets, and the change to that number after the warrant was voted. The 2019 capital spending number, while large, was funded by primarily bond finance, which will impact our debt budget in the years to come.

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
2019	\$23,523,145	\$27,517,263

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 should be noted that some warrant article budgetary impacts are permanent, and would account for the growth in the budget committee number over this six year period. An example would be collective bargaining contracts. (Voters approved three year contracts in 2015 that granted negotiated raises to our employees, as well as two in 2019.) A second driver would be employee health care costs, which are de facto permanent. (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 six year history of employee health care costs are below. The drop in health care costs as a percentage of the overall budget is significant in 2019, with a drop of 1.33% reflecting additional cost sharing by employees.

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	\$3,487,453	15.22%
2019	\$3,268,166	13.89%

So what do these town side numbers show us? The overall growth in the “budget committee” number was \$3,302,792 over six years. That is a growth rate of 2.7% annually. As far as budgetary discipline goes the Board of Selectmen, and the Budget Committee, have held the budgetary increases under 3%, which shows that we have managed to hold the line on the spending side.

One of the numbers that we need to include is what would be called the “new growth” number, representing taxes collected on new construction. There has been much commercial growth in Seabrook, and that is reflected in the \$9,700,000 in taxes paid by that sector. The rate of new growth has slowed, with new tax dollar growth less than 1% of total dollars raised.

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
2018	\$15,000,000	\$244,000
2019	\$10,000,000	\$157,500

Summary and Conclusions

This report is filed annually, and we attempt to focus some attention on areas where the numbers stand out.

1. The first question in last years report was how to deal with the relative decline, as a percentage of the total, of the payments from NextEra. In 2019 the numbers on this front stabilized. In FY 2020 we are operating in the last year of the three year contract, bringing in \$12,130,000 from NextEra. As we prepare

the FY 2021 budget we must be mindful of the fact that it is a negotiation year with NextEra, and that budget preparation will begin without a full understanding of what the number will be.

2. The second question dealt with how we fund our Capital Improvement Program, and posed the question of using “capital funds” to smooth out the gyrations in capital spending. We have done that, with the addition of four capital funds, with several of the funds receiving initial funding approval from the voters. A second issue raised was the utilization of debt to fund some capital projects. I have attached the debt schedules to this report, and note that in order to build critical water infrastructure in Seabrook debt finance of approximately \$9.5 million was utilized. That debt will have been lowered to \$6.2 million at the end of 2019. That is a reduction in debt of \$3.3 million, which will allow the utilization of debt finance for the pier project and the water tower maintenance project. That debt has been floated, and both projects are underway. In FY 2021 our debt payment will increase by \$151,200 to cover those two projects. Voters authorized additional debt financing, for police communications, which will be floated in 2021. That bond will be financed through payment from the Town Communication Revolving Fund, which is funded through payments from NextEra and T-Mobile, and therefore will not impact taxpayers.
3. The third question dealt with local revenues as an offset against the total tax burden, and specifically whether closing the water and sewer “subsidy” was something that ought to be done. This report has shown the wisdom of that policy, as it has brought direct relief to the taxpayers of Seabrook.
4. The fourth question dealt with health care, and how the large costs associated with that line item have impacted our budget. The pandemic appears to have depressed overall utilization of medical care across the board. It appears that, on that basis, we may receive a rebate from the Health Trust. The School system may also receive a rebate, which should be discussed with them. That reduced utilization should bring lower health care costs to us in FY 2021.
5. We have reimbursements for FY 2020 COVID-19 expenses from the CARES Act coming. Seabrook is eligible, in the first round of CARES Act funding, for about \$210,000 in eligible expense reimbursement. We anticipate seeking the full amount. We are also eligible for FEMA funding, which we are putting together now. Our first Cares Act funding request, for about \$80,000, has been submitted.

6. The voters approved additional personnel for police (two additional officers) in FY 2020. Since that funding is scheduled to begin in December the full budgetary impact will not be felt until 2021.
7. Although we are eligible for CARES Act funding that tranche of money can only be used for reimbursement of COVID related expenses. There is ongoing discussion at the federal level of an additional federal package that would bring relief to localities over lost revenues. Those negotiations are currently stalemated, but there will likely be a package. That is an unknown for FY 2021.
8. There should be a real concern on the commercial business front for FY 2021. Seabrook derived \$7.3 million in that category in 2019, and it is frankly endangered. The retail landscape is changing rapidly, and we face a potential decrease in value associated with our commercial sector, which is weighted heavily towards retail. Although revenues are holding thus far in 2020 we have seen declines in auto registration revenue, with potential for additional problem spots, depending on the state of the economy. On the revenue front there are many unknowns, so we should proceed with caution. New initiatives that require additional financial commitment should likely be deferred if possible.
9. I have sent memos on the ambulance fund. In FY 2021 some adjustments will need to be looked at to ensure the continued financial viability of this fund. This discussion should occur as part of the budget process.