



April 29, 2024

Mayor Kahn and Members of the Keene City Council:

Your City staff and the City Manager are pleased to present the proposed Operating Budget for the fiscal year 2025. The proposed budget prioritizes essential services like public safety and infrastructure maintenance while allocating resources for critical capital project reserves and project outlays – such as the downtown infrastructure project, miscellaneous road rehabilitation projects, and re-construction of Lower Winchester Street. The budget remains mindful of overall rate increases and seeks to balance operational needs with long-term sustainability. It advances City Council goals and continues to leverage grant funding opportunities that benefit our community.

Balancing these priorities – service levels, long-term investments, and fiscal responsibility – is an ongoing challenge. A detailed explanation of the general fund operating budget factors and fiscal policy measures are included on pages 5-33 of your budget book, which is also accessible on the City website keeneh.gov/budget. The proposed budget is \$423,366 below the city's fiscal policy limit. It is expected to increase the city's portion of the tax rate by 7.57 percent (\$.95).

The chart on page 9 illustrates the primary budget driver is the increased cost in wages. Wage adjustments are tied to contracted bargaining union agreements and non-union wage adjustments which include a 3% Cost of Living Adjustment (COLA). \$1,463,730 of the \$2,251,547 overall budget increase is related to wages. The remaining difference (\$787,817) is primarily the increased cost of human services, specifically the \$400,000 increase in rental assistance. Leaving only relatively small operational adjustments throughout the budget.

The rising costs associated with homelessness necessitates budget increases aimed at providing essential services while also seeking long-term solutions through collaboration with community partners. The proposed budget allocates the additional \$400,000 to the Human Services rental line (pg. 86), an increase in the City's part-time outreach position from 12.5 to 28 hours per week (pg. 85), a partnership with Monadnock Family Services street outreach program at \$35,000 (pg. 42), and a \$50,000 contribution to the Monadnock Interfaith Housing fund to support the creation of more housing opportunities in our community (pg.42). These initiatives support strategies that go beyond managing the immediate needs of individuals and leverage partnerships with other community organizations to connect individuals with pathways to permanent housing and stability. The City participated in the State's InvestNH Per Unit Program and received \$150,000 related to the efficient process of the permitting of fifteen affordable housing units (specifically the Marlboro Street project 15 units @ \$10,000 per unit). The proposed budget invests these funds as an offset to \$100,000 of the increased rental costs and \$50,000 for the housing fund contribution.

Each year we strive to strike a balance between the needs of the departments and the pressure on the tax rate. Therefore, staffing changes prioritize transition management and succession planning. Those adjustments include creation of an operations focused Deputy Clerk position and four months of overlap in anticipation of our City Clerk's retirement in spring 2025, overlap funding anticipating the retirement of City's Transportation & Stormwater Manager as well as additional support for emergency

operations/management through a part-time contract for the upcoming year. Other personnel adjustments include shifting allocation of 40% of the AV production specialist position from franchise fees to the general fund. Community Development proposals include re-grading of existing Planning Technician and Mapping Technician positions and additional part-time Planning Technician support while the department's organization is evaluated over the upcoming year. The Parks and Recreation budget supports additional hours to create a full-time Recreation Specialist position which is entirely offset by increased program fees, with support of additional hours to adjust the second existing part-time Coordinator position to full-time, from the Recreation Revolving Fund. Youth services includes a part-time case worker position that was previously funded by a grant, now moved to the City's budget. This Case Worker position is offset by funding from Cheshire County.

The mounting need to re-grade positions across the organization, the challenges we have faced with recruitment, and recent concerns with retention – support the need for a comprehensive wage study. As it has been more than a decade since a limited wage study was completed, the Human Resources department requested funding mid-year to conduct a comprehensive wage and benefit study. That study will be undertaken over the upcoming months. Implementation is expected to be phased in starting in FY 2026. In addition, to continue to support employee development, \$15,000 has been designated in the City-wide Employee Benefits budget to support training. The Governmental Accounting standards board (GASB) requires the recognition, measurement, and disclosure of compensated absences. Therefore, there is an additional \$100,000 contribution to compensated absences (pg. 165) to account for unused employee leave time currently on the books.

In 2021, the City went through a City-wide property revaluation to bring its real estate assessments to market value. This was done at a time when values were significantly increasing compared to previous years. Shortly after, there was some speculation that the market was peaking and may even begin to decrease. However, in 2024 real estate prices have only continued to increase particularly with residential properties. The assessment equalization ratio for the City has dropped this past year from 80.9% to 72.8%. This means that the median sale price in the City is 27.2% more than its assessed value. Concerning property taxes, since all properties are around the same level, there remains fairness and equity in the assessments. However, the equalization ratio still has some effects. The overall value of utility property in the City, by state law, must be equalized by the ratio. While utility values are reviewed every year to account for changes and the value may increase from the previous year, the equalization ratio of 72.8% will still need to be applied. When this is done the result could be an overall loss in taxable value for utility property, shifting some tax burden over to other property owners and affecting the overall tax rate for the year. This budget includes the second year of an estimated **six-million-dollar reduction** in utility values.

Overall, the tax rate estimates are based on a conservative projection which includes a net increase in value of \$4 million dollars. This is net of the above-mentioned decline in the City's utility value of \$6 million dollars. This budget conservatively estimates City revenues associated with state municipal aid as we know them. Significant revenue increases include an increase in interest earnings of \$325,000 which helps to offset the increased bonding expenses, an increase in Motor vehicle revenues of \$165,000, and an increase in ambulance billing of \$200,000.

To bring the proposed budget into compliance with the City's fiscal policy, adjustments have been made to account for vacancies in the Police Department, Community Development, and Fire Department. Two police officer positions are not included in the budgeted wage lines (\$208,354). The addition of funds to support the Fire Marshal is included in both the Community Development department (20%)

and Fire Department (80%). This is mostly offset by reducing budgeted funds for one of the two Fire Department Deputy positions funded at 50% and the Building/Health Official also funded at 50%.

This recommended budget considers the first year of the 2025-2031 Capital Improvement Program. The City's Capital Improvement Program (CIP) provides for considerable advance project identification, planning, evaluation, scope definition, design, public discussion, cost estimating, and financial planning. The CIP goal is to provide for continued reinvestment in existing assets combined with strategic investments in new assets essential to the City's future success. The proposed projects, and ultimately those projects approved by the City Council through adoption of the fiscal year operating budget, improve the daily lives of our residents as well as the experience of those visiting our community. Many projects are also important to the City's success in supporting our business community and encouraging economic activity and future development for Keene. One such project, the Downtown Infrastructure and Improvement project, is working its way through the process. The City has submitted a Raise grant application for this project and we expect to hear back as to whether or not we have been successful at the end of June.

The capital funding for FY 2025 incorporates the remaining \$887,204 ARPA LFRF grant funds as debt reduction for the Roadway Preservation and Rehabilitation Program (\$850,000/years FY23 & FY24). FY25 also incorporates the use of \$1,490,946 of surplus funds to offset the cost of various projects. This includes the addition of the crime scene van replacement project.

FY 2025 ADDITIONAL POINTS OF INTEREST

This year the Greater Monadnock Collaborative (Chamber) requested a \$10,000 contribution to their Promoting the Region campaign. While I wasn't able to fund this as part of my budget review, I do believe this is a request the Council should seriously consider. The City benefits from the Chamber's success marketing both Keene and the region.

Outside agency funding recommendations included in the budget are those developed by an expanded committee that included City Councilors selected by the Mayor. The recommended amount included in the budget is \$67,115 more than last year. This increase includes two items that I added after the committee's review (\$35,000 outreach and \$50,000 housing fund). Funding for Hundred Nights Shelter remains at \$35,000 but has been moved to the Human Services budget. Community funded events increased slightly by \$22,540. The Keene Pride Festival was added, the DeMar marathon and Ice & Snow festival were increased, and other festivals were minimally adjusted to reflect actual costs. A maximum City contribution of \$10,000 was used in the calculation of this budget.

As mentioned last year, the presentation of the budget book is going through a transformation as a result of the software upgrade. Part of this migration in technology is access to a publishing software tool that is integrated with the financial software. This provided the perfect opportunity to coordinate the City's branding colors and new logo into the FY 2025 budget book, as well as an improved organization to the overall presentation.

BOND RATING, DEBT SERVICE AND CAPITAL

Larger projects, including those identified in the City's CIP, are typically financed through the sale of bonds or other long-term obligations. The City's fiscal health was affirmed by Standard and Poor's assignment of an AA/Stable long-term rating when the City went to market with debt in September

2018. The City's fiscal practices, including incorporation of operating budget and capital program projections and relatively rapid amortization of debt and fund stabilization policies are factors viewed favorably by rating agencies. This assessment attracts investors to City bonds and helps keep interest rates relatively low.

During the spring of 2023, the City participated in the New Hampshire Municipal Bond Bank (NHMBB) spring issue and secured a True Interest Cost of 3.23% after accounting for the premium. Looking ahead, the City is submitting an application to the NHMBB for the upcoming spring bond issuance for the FY 2024 approved bonds.

Below is a list of the proposed FY 2025 bond resolution.

FY2025 Budget - bond resolutions				
Resolution	Fund	Description	Amount	Term
R-2024-10	General Fund	City Hall Structural Repairs	1,258,000	10
R-2024-11	General Fund	Lower Winchester Street	805,000	10
R-2024-12	General Fund	Stormwater Resiliency Program	3,550,000	15
Subtotal - General Fund			5,613,000	
R-2024-13	Sewer Fund	Lower Winchester Street	418,000	10
R-2024-14	Sewer Fund	Martell Court Bypass	3,420,000	15
R-2024-15	Sewer Fund	WWTP HVAC Replacement	327,000	10
R-2024-16	Sewer Fund	WWTP Service Water System Upgrade	262,000	10
Subtotal -Sewer Fund			4,427,000	
R-2024-17	Water Fund	Lower Winchester Street	1,004,000	10
R-2024-18	Water Fund	Water Distribution Improvements	1,307,000	10
Subtotal - Water Fund			2,311,000	
Total - All Funds			12,351,000	

In addition to capital budget projects funded through long-term debt, this year's capital plan includes many projects identified as City priorities that are funded through current revenues, use of fund balance, capital reserves, and grants.

PERSONNEL

The City workforce includes unionized and non-unionized employees. The unionized employees fall under one of six collective bargaining agreements (CBAs). Ratified agreements are in place for each of the City collective bargaining units.

Workforce	Contract Expiration
AFSCME - Public Works	6/30/2025
IAAF - Keene Firefighters	6/30/2026
IAAF - Keene Fire Supervisors	6/30/2026
NHFT - Keene City Employees	6/30/2025
NHFT - Keene Police Officers	6/30/2025
NHFT - Keene Police Supervisors	6/30/2026

An allowance is included as part of the employee benefits cost center to support adjustments for non-

unionized employees and collective bargaining agreements to be negotiated.

TAX INCREMENT FINANCING

Tax Increment Financing District activities for the Library Campus project, parking, and downtown investments in the General Fund and Parking Fund are funded through the Wells Street Tax Increment Financing District (TIFD). The General Fund includes TIFD expenditures related to the Library Campus Development Project. These include debt service on the Library Campus Development bond issue, and property taxes related to the financing arrangement for the library project, New Market Tax Credit (NMTC) audit fees, a project management fee to be paid to the Monadnock Economic Development Corporation (MEDC), an operating lease for the Library property, and the ongoing annual appropriation for the Downtown Infrastructure Capital Reserve.

The following table illustrates the uses of TIF District resources in the proposed General Fund and Parking Fund FY 2025 budgets:

Tax Increment Financing FY 2025	
Assessments in District	91,867,000
LESS: Original Assessed Value	(47,867,000)
Captured Assessed Value	44,000,000
Value needed for District Expenses	38,575,250
Property Tax Rate	34
Tax Revenues Available to Fund District Expenses	1,325,060
NMTC Financing Development Interest Payment	89,698
Courthouse Revenues Supporting Debt Service	16,326
Total District Revenues	1,431,084
District Expenses:	
Principal	253,368
Interest	69,214
Capital Reserve Appropriations	530,000
NMTC Financing Library Lease	220,586
Property Taxes - Library	155,771
Total District Expenses	1,228,939

CONCLUSION

City staff, in preparation for the submittal of the Operating Budget, has presented, during a series of meetings, complete information about budget requests as well as multiple breakdowns of the revenue and spending required to complete projects, service debt, and provide the services requested by the public. The Operating Budget and the Capital Budget were put together to support the service needs of our community, providing for physical improvements to the City and its infrastructure and furthering the goals of the City Council and Comprehensive Master Plan.

The following table provides the calendar for the balance of the FY 2025 Budget review and adoption process.

Budget Meeting Calendar			
Date	Day	Time	Description
May 1, 2024	Wednesday		City Manager Budget distributed to City Council
May 2, 2024	Thursday	7:00 PM	Regular Council Meeting - Budget resolution first reading - referred to FOP Committee
May 9, 2024	Thursday	5:30 PM	Regular FOP meeting (start 5:30)- Budget Review - Overview, General Fund Revenues & Expenditures, Debt Service, Mayor & City Council, Outside Agencies, Unclassified Items, Capital Appropriations, Employee Benefits, Risk Management, City Manager's Office, City Attorney, City Clerk, Assessment, Finance, Human Resources, Information Technology, PC Replacement Fund
May 14, 2024	Tuesday	5:30 PM	Special FOP Meeting (5:30) -Budget Review - Community Development, Public Works, Parking Fund, Solid Waste Fund, Sewer Fund, Water Fund, Equipment (Fleet Fund)
May 16, 2024	Thursday	7:00 PM	Regular Council Meeting - Introduce bond resolutions; introduce salary ordinance
May 21, 2024	Tuesday	5:30 PM	Special FOP Meeting (start 5:30 PM) - Budget Review -Library, Parks, Recreation & Facilities, Fire, Police, Airport
May 23, 2024	Thursday	5:30 PM	Regular FOP Meeting - Make recommendation on budget, salary ordinance, bond resolutions
June 6, 2024	Thursday	7:00 PM	Regular Council Meeting - Public Hearing
June 20, 2024	Thursday	7:00 PM	Regular Council Meeting - Vote on budget, salary ordinance, bond resolutions
July 1, 2024	Friday		Start of FY 2025

Thank you for letting us serve you.

Respectfully submitted,

Elizabeth A. Dragon
City Manager