



April 29, 2025

To: Mayor Kahn and Members of the Keene City Council

From: Elizabeth Ferland, City Manager *EAF*

Re: FY26 Proposed Operating Budget and Executive Summary

Your City team and I are pleased to present the proposed Operating Budget for Fiscal Year 2026. This budget prioritizes essential services such as public safety and infrastructure maintenance, while allocating resources to key capital efforts, including the reconstruction of Lower Winchester Street, roadway rehabilitation, stormwater resiliency projects, airport wildlife perimeter fencing, and replacement of fire apparatus.

The proposed budget reflects a careful balance between the City's operational needs and the economic realities facing our community. It supports City Council goals while continuing to strategically leverage grant opportunities—maximizing community benefit without placing undue burden on taxpayers. The budget is \$481,686 below the City's fiscal policy limit and is projected to result in a 2.06% (\$0.27) increase to the City's portion of the tax rate.

As a service organization, Keene's operational budgets generally experience only modest year-to-year increases. Meaningful changes to the municipal tax rate typically come from two key areas: changes to service levels or the scope and timing of capital projects. Balancing these priorities—maintaining service levels, making long-term investments, and ensuring fiscal responsibility—is a constant and complex challenge.

A detailed breakdown of the general fund operating budget and fiscal policy factors can be found on pages 6–16 of your budget book and at [keenenh.gov/budget](https://www.keenenh.gov/budget).

Personnel & Wage Adjustments

The chart on page 9 illustrates that the primary driver of this year's budget increase is the rising cost of wages. This includes the addition of four firefighters (one per shift) now included in the base budget. Fire suppression and ambulance wage lines are increasing by \$478,000 and \$170,000, respectively. Additional increases are due to union-negotiated agreements and non-union wage adjustments, including a 3% COLA. Library part-time

wages have also been adjusted by \$126,405 to align with staffing changes made in recent years.

In total, \$1,496,216 of the \$1,599,685 overall increase is tied to wages. The remaining \$103,469 reflects a modest rise in operational costs. Offsetting reductions in other sections of the budget result in a general fund bottom-line increase of only \$762,000.

Property Valuation & Revenue Forecasting

The City completed a revaluation in 2021 during a period of significant real estate appreciation. Another citywide revaluation is scheduled for next year, which is expected to increase assessed values and lower the tax rate accordingly. The equalization ratio has dropped again this past year—from 72.8% to 66.8%—reflecting continued escalation in the real estate market. Today, a home assessed at \$250,000 is typically selling for approximately \$374,000.

This widening gap also continues to impact the valuation of utility properties, which, under state-mandated equalization requirements, must be adjusted downward. We currently estimate a utility value reduction of between \$6 million and \$8 million. Historically, other increases in citywide property values have largely offset this decline. Therefore, for budgeting purposes, we are conservatively projecting that the City's total assessed property value will remain level for the upcoming fiscal year.

On the revenue side, the budget projects increases, with the most significant stemming from interest income (\$600,000), motor vehicle registrations (\$165,000), and ambulance billing (\$200,000). These additional revenues help to offset the rising costs associated with personnel and operations.

Staffing Plan Adjustments

To meet fiscal policy constraints, the budget includes adjustments based on known vacancies. One police officer position has been excluded from wage lines. The Fire Marshal position is split between the Community Development (20%) and Fire Departments (80%), offset by reductions to one Deputy Fire Chief and the Building/Health Official, each funded at 50%.

Capital Investments

This budget represents the second year of the 2025–2031 Capital Improvement Program, which continues to support the City's goals of reinvestment in existing assets and targeted new projects to enhance quality of life and economic development. These include essential infrastructure, equipment, and planning efforts that support both residents and

the business community. Capital funding includes \$1,174,288 of surplus funds to support various projects, including dam Maintenance, building and parks maintenance, durable fire equipment, roof projects, and parking lot paving projects.

Water and Sewer Rates

The City's most recent adjustment to water and sewer utility charges occurred on November 1, 2022. Since that time, operational costs have risen significantly. Industry estimates indicate that operation and maintenance costs have increased by approximately 10–15% since the fall of 2022. To maintain the financial stability and resiliency of the Water and Sewer Funds, it is necessary to increase the charges for various services.

However, implementing a 15% rate increase all at once would create undue hardship for many customers. Utilizing the utility rate model developed in 2022, staff from the Public Works and Finance Departments have crafted a strategy to incrementally increase revenues over time. This approach will satisfy cash-flow requirements while maintaining compliance with the Council's fiscal policies related to unallocated fund balances.

A 5% increase on most charges is proposed, effective July 1, 2025. The department will recommend incremental adjustments at the start of each fiscal year as part of the annual budget process.

For the median residential customer—with a 5/8" water service and usage of approximately 12 units per quarter—this adjustment will increase the quarterly bill by \$11, amounting to an annual increase of \$44.

Additional Points of Interest

Outside agency funding recommendations total \$36,953 less than last year, primarily due to the one-time \$50,000 MIP/MEDC housing fund appropriation in FY25. Community event funding increased only slightly (\$1,975).

If a federal SAFER grant for the Fire Department is awarded later this year, additional appropriations will be requested to cover gear, training, and other equipment costs not funded by the grant. If a SAFER grant is not awarded in FY26 we will back in front of the council to request the addition of one more firefighter per shift to bring us above the minimum of 12 per shift required to operate the city's third ambulance.

Conclusion

The FY26 budget reflects prudent financial stewardship while advancing community priorities. It maintains core services, supports necessary growth, and addresses immediate needs while positioning Keene for long-term sustainability. The administration

remains committed to transparency, accountability, and adaptability—and to delivering the level of service our residents expect and deserve.

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, 2025	Thursday		City Manager Budget distributed to City Council
May 1, 2025	Thursday	7:00 PM	Regular Council Meeting - Budget resolution first reading - referred to FOP Committee
May 6, 2025	Tuesday	5:30 PM	Special FOP meeting (start 5:30) - Budget Review - Overview, General Fund Revenues & Expenditures, Debt Service, Mayor & City Council, Outside Agencies, Unclassified Items, Capital Appropriations, Risk Management, City Manager's Office, City Clerk, Finance
May 8, 2025	Thursday	5:30 PM	Regular FOP meeting (start 5:30) - Budget Review - Community Development, Information Technology, PC Replacement Fund, City Attorney, Assessment, Parking Fund, Human Resources, Employee Benefits
May 13, 2025	Tuesday	5:30 PM	Special FOP Meeting (5:30) -Budget Review - Public Works, Solid Waste Fund, Sewer Fund, Water Fund, Equipment (Fleet Fund)
May 15, 2025	Thursday	7:00 PM	Regular Council Meeting - Introduce bond resolutions; introduce salary ordinance
May 20, 2025	Tuesday	5:30 PM	Special FOP Meeting (start 5:30 PM) - Budget Review - Airport, Library, Parks, Recreation & Facilities, Police, Fire
May 22, 2025	Thursday	5:30 PM	Regular FOP Meeting -Make recommendation on budget, salary ordinance, bond resolutions
June 5, 2025	Thursday	7:00 PM	Regular Council Meeting - Public Hearing
June 19, 2025	Thursday	7:00 PM	Regular Council Meeting - Vote on budget, salary ordinance, bond resolutions
July 1, 2025	Tuesday		Start of FY 2026

We thank you for your continued leadership and dedication to our city.

Respectfully,

Elizabeth Ferland

City Manager