

To: City Council

From: Finance Department

CC: Michael Sauschuck, Acting City Manager, Anita LaChance, Acting Deputy City
Manager

Date: May 15, 2015

Subject: Implications of a Delay in City of Portland FY16 Budget Approval

The purpose of this memo is to highlight the positive and negative implications of a delay in vote on the City of Portland's FY16 Budget. There are two possible benefits which may materialize due to a delay in budget approval but also a significant number of negative tax, cash flow, and operational consequences. The negative implications become more severe each week the budget is not approved.

Potential Positive Implications of a Delay in Budget Approval

If City Council delayed a vote on the FY16 Budget there is a chance that a decision may be reached in the ongoing legal dispute regarding reimbursement for general assistance payments for the asylum seeking population. Oral arguments in the court case are scheduled for Friday, May 15th and per discussion with our internal and external legal counsel a decision could be reached by the judge any time after oral arguments conclude. However, true resolution of the matter for all intents and purposes would likely not occur prior to June 30th, 2015 due to the inevitable appeal process which is likely to occur after an initial decision is reached.

If the City Council delayed a vote on the FY16 Budget there would be a small chance the State of Maine could finalize their budget prior to the City of Portland finalization. This would be a positive as it would reduce the likelihood of any City budget decisions having an impact on State budget decisions. This would also allow the City to see final State budget decisions on items such as school funding and general assistance (Note: State revenue sharing decisions do not have a budget impact until FY17). The Superintendent has promised that any additional funds received via additional State funding would go to reducing the property taxes. Additionally, the State budget's decisions on general assistance will not immediately supersede the State Department of Health and Human Service's current reimbursement practices and therefore Staff believes they are generally irrelevant to how the City should responsibly budget for FY16.

Potential Negative Implications of a Delay in Budget Approval

The main negative implication of a delay would be on the timing of our required tax billing. The sooner we can inform taxpayers about their tax liability the better. Citizens expect tax bills to be ready around the same time each year and the amount of complaints from taxpayers will increase significantly if their tax information is not available at the normal time. Treasury has already been receiving an increased volume of calls inquiring about when tax details will be available. Tax bills must be mailed out by July to ensure the taxpayers and escrow companies can pay in a timely manner. Additionally, per discussion with Rick Blackburn, the City Tax Assessor, each year we attempt to commit the tax roll by the end of June so that the 185 day tax appeal period ends in the same calendar year as the commitment.

Each year the City carefully budgets to ensure that City expenditures do not exceed City revenues. Tax revenues are an important component of City revenues. If City taxes are not levied in a timely fashion the City could encounter cash flow issues. The City relies on incoming tax payments to fund outgoing debt payments and operating expenses. The City has a recommended Fund Balance of 12.5% of total expenditures (approximately 2 months of reserve funding) but any significant delay in budget approval would increase likelihood of potential cash flow problems due to lack of revenues being received in a timely fashion.

Finally, there is a long list of additional operational problems caused by a delay in budget approval, including the following:

1. Without an approved budget, the hiring freeze continues and no new or vacant positions will be filled.
2. In June City staff who deal with finance and accounting in each department are in year-end closing mode. Work on year end close cannot begin until a budget is approved. The external auditors will be beginning preliminary field work on June 22nd and City staff must have time to prepare in advance of their commencement of fieldwork.
3. Employees who have been severed due to the FY16 budget cuts have been given 30 days of administrative leave prior to their last day as City employees. Without an approved budget uncertainty exists about whether their administrative leave begins on June 1st, a later date, or whether their jobs will be restored if the budget is approved later.
4. The same uncertainty exists for all employees who have had a job change or promotion which is scheduled to be effective in FY16.
5. The Portland Downtown District (“PDD”) uses the tax roll as a basis for its assessments. The PDD needs funds beginning July 1. Although the Assessors don't print and mail the tax bills, we work with IT to get the roll and the bills done in a timely manner (by July 1st at the latest).
6. The same impacts which apply to the PDD also apply to personal property tax billing.
7. Employee morale due to the hiring freeze, the position cuts being in limbo, and the other changes in key City staffing is low. An approved budget would give confidence to City staff that the City Council is willing to make some of the key changes which are required to keep the City moving in the right direction.