

## 2017 CITY BUDGET – Section 6 Interfund Transfers

Budgets are adopted by the City Council on a fund basis. A fund segregates resources (revenues) and requirements (expenditures) that are legally restricted to specific uses. The City has six budgeted Operating Funds and a Capital Improvements Fund where the acquisition or construction of major, expensive and long-lived capital facilities are budgeted.

An understanding of what the budget intends to accomplish takes substantive form at the functional level where related activities aimed at accomplishing a major service for which the City is responsible takes place. *Section 3 Operations and Maintenance, Section 4 Capital Improvements, Section 5 Debt Service and Section 6 Interfund Transfers* are organized by function; *Section 7 Revenues and Rates* provides for how operational and non-operational activities and efforts are expected to be paid for.

*Section 6 Interfund Transfers* consists of transferring resources between funds of a nonreciprocal character. Unlike regular expenditure exchange transactions where goods are provided, or services rendered, by an third party external to the City, transactions are confined between funds not involving parties external to the City.

**The 2017 Interfund Transfers Budget is \$4,397,050, an increase of \$748,505, or 30.5%, from 2016.** The change is attributable to increases in transfers to the Capital Improvements Fund and Municipal Airport Fund from the General Fund, the latter as payment to subsidize operations.

Table No. 1

Function	2015 Budget	2016 Budget	2017 Budget	\$ Chg.	%Chg.
Interfund Transfers	<u>\$3,350,940</u>	<u>\$3,648,545</u>	<u>\$4,397,050</u>	<u>\$748,505</u>	<u>20.5%</u>
<u>Budgeted Fund</u>					
General	\$723,190	\$853,395	\$1,425,780	\$572,385	67.1%
Solid Waste Disposal	\$1,370,310	\$1,406,840	\$1,403,060	(\$3,780)	-0.3%
Water Treatment and Distribution	\$528,210	\$535,430	\$563,670	\$28,240	5.3%
Sewage Collection and Disposal	\$679,320	\$720,240	\$895,720	\$175,480	24.4%
Municipal Airport	\$49,910	\$132,640	\$108,820	(\$23,820)	-18.0%
Total	<u>\$3,350,940</u>	<u>\$3,648,545</u>	<u>\$4,397,050</u>	<u>\$748,505</u>	<u>20.5%</u>
<u>Activity</u>					
Transfers to General Fund	\$1,571,100	\$1,638,660	\$1,675,550	\$36,890	2.3%
Transfers to Enterprise Funds	\$280,510	\$360,440	\$493,680	\$133,240	37.0%
Transfers to Special Revenue Funds	\$25,000	\$25,000	\$25,000	\$0	0.0%
Transfers to Capital Improvements Fund	\$0	\$76,570	\$603,410	\$526,840	688.1%
Transfers to Capital Reserve Funds	\$1,474,330	\$1,547,875	\$1,599,410	\$51,535	3.3%
Total	<u>\$3,350,940</u>	<u>\$3,648,545</u>	<u>\$4,397,050</u>	<u>\$748,505</u>	<u>20.5%</u>

### Transfers to General Fund

**The 2017 Transfers to General Fund Budget is \$1,675,550, an increase of \$36,890, or 2.3%, from 2016.** The change is primarily attributable to an increase of \$53,310 in administrative overhead offset by a decrease of <\$16,340> in host community fees received from the Solid Waste Disposal Fund.

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Table No. 2

Program	2015 Budget	2016 Budget	2017 Budget	\$ Chg.	%Chg.
Administrative Overhead	\$933,980	\$993,030	\$1,046,340	\$53,310	5.4%
Compensate for Use of Bond Proceeds	\$0	\$4,070	\$3,990	(\$80)	-2.0%
Host Community Fees	\$637,120	\$641,560	\$625,220	(\$16,340)	-2.5%
Total	\$1,571,100	\$1,638,660	\$1,675,550	\$36,890	2.3%

- Administrative Overhead:** The Solid Waste Disposal Fund, Water Treatment and Distribution Fund, Sewage Collection and Disposal Fund, and Municipal Airport Fund, are annually assessed an administrative overhead charge, which is revenue to the General Fund (Table No. 3). administrative overhead is an allocation of a prorated share of Department of Public Works and general administration expenses (including full funding of the sewer and water billing collections clerk), independent audit costs, copying, and postage expenses. The administrative overhead calculation is debt service and interfund transfers neutral.

Table No.3

Budgeted Fund	2015 Budget	2016 Budget	2017 Budget	\$ Chg.	%Chg.
Solid Waste Disposal Fund	\$198,860	\$210,730	\$215,430	\$4,700	2.2%
Water Treatment and Distribution Fund	\$278,210	\$285,430	\$313,670	\$28,240	9.9%
Sewage Collection and Disposal Fund	\$407,000	\$440,800	\$455,420	\$14,620	3.3%
Municipal Airport Fund	\$49,910	\$56,070	\$61,820	\$5,750	10.3%
Total	\$933,980	\$993,030	\$1,046,340	\$53,310	5.4%

- Compensate for Use of Bond Proceeds:** The Sewage Collection and Disposal Fund provides resources of \$3,990 as compensation for the use of bond proceeds (2009 CSO and 2010 CSO) to fund the 2013 Storm Recovery West Lebanon Sewer Interceptor capital improvement project as authorized by the City Council (Table No. 4).

Table No. 4

Budgeted Fund	2015 Budget	2016 Budget	2017 Budget	\$ Chg.	%Chg.
Sewage Collection and Disposal Fund Total	\$0	\$4,070	\$3,990	(\$80)	-2.0%

Future payments:

Table No. 5

<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
\$3,870	\$3,800	\$3,690	\$3,570	\$3,460	\$3,340	\$3,230
<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>
\$3,110	\$3,000	\$2,880	\$2,770	\$2,650	\$2,540	\$380

- Landfill Host Community Fees:** The General Fund receives a per ton (adjusted annually based on a consumer price index) host community fee from the Solid Waste Disposal Fund, not unlike a payment-in-lieu-of-taxes, as compensation for the irreversible loss of City property that might otherwise have been capable of tax revenue generation. The City takes in municipal solid waste from 23 communities including 12 from Vermont. The 2016 rate is \$14.25 a ton; actual tonnage for 2015 was 38,301.90; 2016 tonnage may be about 39,100 tons. Non-property tax revenue to

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the General Fund, host community fees for the past five-years have been: 2011/\$514,811, 2012/\$523,139, 2013/\$521,887, 2014/\$530,316 and 2015/\$544,270; \$552,070 is estimated for 2016, which projects out to about 38,740 tons. The 2016 Solid Waste Disposal Fund expenditure budget is \$641,650, intentionally estimated on the high side as a contingency for increases in processed tonnage; the corresponding revenue budget in the General Fund is budgeted so as to not overstate revenues. The 2017 transfer to the General Fund (from the Solid Waste Disposal Fund) for landfill host community fees is \$625,220 based on 43,000 tons at \$14.54 a ton (Table No. 6); the corresponding General Fund revenues budget is \$527,250 based on 37,000 tons at \$14.25 a ton.

Table No. 6

Budgeted Fund		2015 Budget	2016 Budget	2017 Budget	\$ Chg.	%Chg.
Solid Waste Disposal Fund	Total	\$637,120	\$641,560	\$625,220	(\$16,340)	-2.5%

### Transfers to Enterprise Funds

**The 2017 Transfers to Enterprise Funds Budget is \$493,680, an increase of \$133,240, or 37.0%, from 2016.** The change is primarily attributable to an increase of \$126,560 in transfer from the General Fund to the Municipal Airport Fund to subsidize operations.

Table No. 7

Program	2015 Budget	2016 Budget	2017 Budget	\$ Chg.	%Chg.
Water Treatment and Distribution Fund	\$240,570	\$250,150	\$256,830	\$6,680	2.7%
Municipal Airport Fund	\$39,940	\$110,290	\$236,850	\$126,560	114.8%
Total	\$280,510	\$360,440	\$493,680	\$133,240	37.0%

- **Transfers to Water Treatment and Distribution Fund:** the General Fund provides resources to the Water Treatment and Distribution Fund for municipal fire protection in the form of hydrant maintenance; the 2017 transfer is \$231,520, an increase of \$6,740, or 3.0% (Table No. 8).

The Sewage Collection and Disposal Fund provides resources of \$22,320 for transfer to the Water Treatment and Distribution Fund to cover 50% of debt service costs related to the Water Meter Radio Read Conversion project completed in 2012. The 2017 transfer is unchanged. [The total loan through the State Revolving Fund program was \$1,294,062. Federal financial assistance of \$647,031 in principal forgiveness was provided from the American Recovery and Reinvestment Act of 2009 through the State.] Additionally, the Sewage Collection and Disposal Fund provides resources of \$2,990 to Water Treatment and Distribution Fund as compensation for use of bond proceeds (2009 CSO and 2010 CSO) to fund the 2013 Storm Recovery West Lebanon Sewer Interceptor Improvement project as authorized by the City Council.

Table No. 8

Budgeted Fund	2015 Budget	2016 Budget	2017 Budget	\$ Chg.	%Chg.
General	\$218,250	\$224,780	\$231,520	\$6,740	3.0%
Sewage Collection and Disposal	\$22,320	\$25,370	\$25,310	(\$60)	-0.2%
Total	\$240,570	\$250,150	\$256,830	\$6,680	2.7%

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Future payments (to the Sewage Collection and Disposal Fund for 50% of debt service costs related to the Water Meter Radio Read Conversion project):

Table No. 9

<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
\$22,320	\$22,320	\$22,320	\$22,320	\$22,320	\$22,320	\$22,320
<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>
\$22,320	\$22,320	\$22,320	\$22,310	\$22,320	\$22,320	\$22,320

Future payments (to the Sewage Collection and Disposal Fund for the use of bond proceeds):

Table No. 10

<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
\$2,910	\$2,850	\$2,760	\$2,680	\$2,600	\$2,510	\$2,420
<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>
\$2,330	\$2,250	\$2,160	\$2,080	\$1,990	\$1,900	\$280

- Transfers to Municipal Airport Fund: The General Fund provides resources to address the actual Municipal Airport Fund deficit from two-years preceding the budgeted year based on operating and other results from actual audited results affecting the Municipal Airport Fund's spendable fund balance (Table No. 11). The 2016 transfer (based on the 2014 audit) was \$110,290; the 2017 transfer (based on the 2015 audit) is \$236,850, an increase of \$126,560, or 114.8%. See the Addendum for background information on the development of the Municipal Airport Fund subsidy including an overview of past and projected subsidies.

Table No. 11

<u>Budgeted Fund</u>	<u>2015 Budget</u>	<u>2016 Budget</u>	<u>2017 Adopted</u>	<u>\$ Chg.</u>	<u>%Chg.</u>
General	\$39,940	\$110,290	\$236,850	\$126,560	114.8%
Total	\$39,940	\$110,290	\$236,850	\$126,560	114.8%

### Transfers to Special Revenues Fund

**The 2017 Transfers to Special Revenues Fund Budget is \$25,000, unchanged from 2016.**

Table No. 12

<u>Budgeted Fund</u>	<u>2015 Budget</u>	<u>2016 Budget</u>	<u>2017 Adopted</u>	<u>\$ Chg.</u>	<u>%Chg.</u>
General Fund	\$25,000	\$25,000	\$25,000	\$0	0.0%
Total	\$25,000	\$25,000	\$25,000	\$0	0.0%

- Transfers to Emergency Management Fund: The General Fund provides resources to the Emergency Management Fund (related equipment and supplies), which is that Fund's sole source of financing.

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Table No. 13

Program	2015 Budget	2016 Budget	2017 Adopted	\$ Chg.	%Chg.
Emergency Management Fund	\$25,000	\$25,000	\$25,000	\$0	0.0%
Total	\$25,000	\$25,000	\$25,000	\$0	0.0%

### Transfers to Capital Improvements Fund

**The aggregate 2017 Transfers to Capital Improvements Fund Budget is \$603,410, an increase of \$526,840, or 688.1%, from 2016.** The change is attributable to transfers from the General Fund and Sewage Collection and Disposal Fund for three projects (Table No. 14).

Table No. 14

Project	2015 Budget	2016 Budget	2017 Budget	\$ Chg.	%Chg.
LPD Facilities Improvements	\$0	\$0	\$330,410	\$330,410	-
Mechanic Street Bridge Improvements	\$0	\$0	\$65,000	\$65,000	-
Route 4/4A Sewer Improvements	\$0	\$0	\$161,000	\$161,000	-
Airport Terminal Building Boiler and Rooftop AC Units Replacement	\$0	\$76,570	\$47,000	(\$29,570)	-38.6%
Total	\$0	\$76,570	\$603,410	\$526,840	688.1%

Table No. 15

Budgeted Fund	2015 Budget	2016 Budget	2017 Budget	\$ Chg.	%Chg.
General	\$0	\$0	\$395,410	\$395,410	-
Sewage Collection and Disposal	\$0	\$0	\$161,000	\$161,000	-
Municipal Airport Fund	\$0	\$76,570	\$47,000	(\$29,570)	-38.6%
Total	\$0	\$76,570	\$603,410	\$526,840	688.1%

As noted in *Section 5 Debt Service* of this budget, the 2017 City Budget requests the City Council rescind previously authorized but unissued long-term debt for four (4) bond/note issues totaling \$1,510,410. (These efforts are part of an ongoing objective to reduce outstanding authorized but unissued long-term debt and, ultimately, the City's debt exposure and the significant costs associated with servicing that debt.) Two of the projects to benefit from alternative funding are presented in conjunction with the 2017 City Budget as transfers from the General Fund (the LPD Facility Improvements project in the amount of \$330,410) and the Sewage Collection and Disposal Fund (the Route 4/4A Sewer Force Main Realignment/Replacement project in the amount of \$161,000) to the Capital Improvements Fund.

- **LPD Facility Improvements (\$330,410):** A \$330,410 transfer was approved in connection with the 2017 General Fund Budget to the Capital Improvements Fund as alternative funding to debt issuance for the LPD Facility Improvements to be paid from available fund balance.
- **\$510,000 Route 4/4A Sewer Force Main Realignment/Replacement:** This is a state project; the City participated. With the exception of the warranty period expiring work is completed. Cost for the City was lower than originally estimated. A \$161,000 transfer was approved in connection with

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the 2017 Sewage Collection and Disposal Fund Budget to the Capital Improvements Fund as alternative funding to debt issuance to be paid from available fund balance.

- Airport Terminal Building Boiler and Rooftop AC Units Replacement (\$47,000): This project was originally appropriated on December 19, 2012 (\$132,400); an additional appropriation occurred December 16, 2015 (\$81,320); \$76,300 was approved in the 2017 capital budget bringing the total appropriated to \$290,020. Most of the project is expected to be financed without Federal Aviation Administration, State or passenger facility charge fee participation. the \$47,000 transfer from the Municipal Airport Fund is one component of that funding that will be absorbed in a future General Fund subsidy payment.

### Transfers to Capital Reserve Funds

Capital Reserve Funds are a statutory way for the City to set aside resources to finance all or part of the cost of capital improvements. The maintenance of Capital Reserve Funds is integral to supporting related expenditures in the capital budget. Without Capital Reserve Funds as a funding source expenditures would have to be paid for through the issuance of long-term debt, capital leasing, or operating transfers. The first two would be inflated by interest expense and likely affect rates (tax or service rates) over a ten to twenty year period; the latter would have an immediate and full rate impact. Capital Reserve Funds are a pay-as-you-go form of financing; debt is pay-as-you-use. The policy choice between the two alternatives requires an analysis of the relevant benefits and costs associated with each. City's may also establish reserve funds (RSA 34:1-a Non-Capital Reserve Funds Authorized) for the "...maintenance and operation of a specific public facility or type of facility, a specific item or type of equipment, or for any other distinctly stated, specific public purpose that is not foreign to its institution nor incompatible with the objects of its organization. Such funds shall be subject to all provisions and limitations of this chapter [RSA Chapter 34] as are applicable to capital reserve funds."

Pay-as-you-go Financing – Either pay-as-you-go and pay-as-you-use (long-term debt) financing has its advantages and disadvantages. The policy choice between them requires an analysis of the relevant benefits and costs associated with each alternative.

#### Advantages of Pay-as-you-go Financing –

- Minimizes premature commitment of funds that should be reserved for operating expenditures or other purposes.
- Savings in interest and other issuance costs. Paying for capital assets with cash rather than financing with debt means that no interest cost is incurred along with the avoidance of various fees and expenses associated with issuing debt.
- Preservation of financial flexibility. Because this method of financing does not create a long-term obligation, greater flexibility is afforded in deciding how much revenue to commit each year to funding capital improvements.
- Protection of borrowing capacity. Relying on cash, in whole or part, to pay for capital improvements helps retain capacity to issue debt in future years.

#### Disadvantages of Pay-as-you-go Financing –

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- Insufficient funding for capital needs. Relying only on available cash may result in deferring necessary rehabilitation and renewal. This is because capital needs far exceed the amount of available cash in any one-year. Failure to undertake the improvements when necessary may result in higher-than-budgeted maintenance costs, interruptions in services and higher costs once the project is undertaken.
- Discourages intergenerational equity. An important principle in public finance is the equity principle; that is, those benefitting from a project should pay for it. Capital projects tend to have long useful lives, benefitting taxpayers over a number of years. Therefore, it is reasonable that the cost of these projects should be spread over the life of the assets and not borne by any one group of taxpayers.
- Unevenness in capital expenditures. Capital projects typically require large expenditure outlays over a particular time period. Paying for these assets with cash often produces unevenness in capital expenditures from year-to-year, depending on the magnitude of the project that must be acquired. Such variations could lead to substantial yearly variations in tax and other rates if complete pay-go financing is applied.

**The aggregate 2017 Transfers to Capital Reserve Funds Budget is \$1,599,410, an increase of \$51,535, or 3.3%, from 2016.** The change is attributable to a net increase in four Capital Reserve Funds and the addition of one new fund for 2017.

Table No. 16

<u>Program</u>	<u>2015 Budget</u>	<u>2016 Budget</u>	<u>2017 Budget</u>	<u>\$ Chg.</u>	<u>%Chg.</u>
Fire Department Equipment and Vehicles	\$200,000	\$210,000	\$220,000	\$10,000	4.8%
Department of Public Works Equipment and Vehicles	\$230,000	\$240,000	\$250,000	\$10,000	4.2%
Recreation and Parks Department Equipment and Vehicles	\$10,000	\$30,000	\$30,000	\$0	0.0%
Parking Facilities Repairs and Maintenance	\$0	\$13,325	\$7,000	(\$6,325)	-47.5%
Police Department Equipment, Vehicles and Improvements	\$0	\$0	\$30,000	\$30,000	-
Landfill Equipment	\$75,000	\$75,000	\$75,000	\$0	0.0%
Landfill Closeout/Long-Term Monitoring and Maintenance	\$309,760	\$322,500	\$322,500	\$0	0.0%
Landfill Extended Long-Term Monitoring and Maintenance	\$149,570	\$157,050	\$164,910	\$7,860	5.0%
Water Treatment and Distribution Improvements and Equipment	\$250,000	\$250,000	\$250,000	\$0	0.0%
Sewage Collection and Disposal Improvements and Equipment	\$250,000	\$250,000	\$250,000	\$0	0.0%
Total	\$1,474,330	\$1,547,875	\$1,599,410	\$51,535	3.3%

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Table No. 17

Budgeted Fund	2015 Budget	2016 Budget	2017 Budget	\$ Chg.	%Chg.
General	\$440,000	\$493,325	\$537,000	\$43,675	8.9%
Solid Waste Disposal	\$534,330	\$554,550	\$562,410	\$7,860	1.4%
Water Treatment and Distribution	\$250,000	\$250,000	\$250,000	\$0	0.0%
Sewage Collection and Disposal	\$250,000	\$250,000	\$250,000	\$0	0.0%
Total	\$1,474,330	\$1,547,875	\$1,599,410	\$51,535	3.3%

**2017 Capital Reserve Funds transfers from the General Fund are \$537,000, an increase of \$43,675, or 8.9%, from 2016.** The change is attributable to a net increase in three General Fund supported Capital Reserve Funds and the addition of one new fund (Police Department Vehicles, Equipment And Improvements) for 2017.

Table No. 18

Program	2015 Budget	2016 Budget	2017 Budget	\$ Chg.	%Chg.
Fire Department Equipment and Vehicles	\$200,000	\$210,000	\$220,000	\$10,000	4.8%
Department of Public Works Equipment and Vehicles	\$230,000	\$240,000	\$250,000	\$10,000	4.2%
Recreation and Parks Department Equipment and Vehicles	\$10,000	\$30,000	\$30,000	\$0	0.0%
Parking Facilities Repairs and Maintenance	\$0	\$13,325	\$7,000	(\$6,325)	-
Police Department Equipment, Vehicles and Improvements	\$0	\$0	\$30,000	\$30,000	-
Total	\$440,000	\$493,325	\$537,000	\$43,675	8.9%

- Projected Fire Department Equipment and Vehicles Capital Reserve Fund activity based on the 2017-2022 Capital Improvement Program:

No. 19

Fire Department Equipment/Vehicles	2016	2017	2018	2019	2020	2021	2022
Beginning Balance	\$170,695	\$80,695	\$110,695	\$230,695	\$360,695	\$345,695	\$445,695
Additions:	\$210,000	\$220,000	\$230,000	\$240,000	\$250,000	\$260,000	\$270,000
Withdrawals:	(\$300,000)						
2017-2022 CIP Radio Equipment	\$0	(\$100,000)	\$0	\$0	\$0	\$0	\$0
2017-2022 CIP Station Alerting System	\$0	\$0	(\$110,000)	\$0	\$0	\$0	\$0
2017-2022 CIP Staff Vehicle Replacements	\$0	(\$90,000)	\$0	\$0	\$0	\$0	\$0
2017-2022 CIP Ambulance Replacements	\$0	\$0	\$0	\$0	(\$265,000)	\$0	(\$290,000)
2017-2022 CIP Personal Protective Equipment Replacemen:	\$0	\$0	\$0	(\$110,000)	\$0	\$0	\$0
2017-2022 CIP Forestry Unit Acquisition	\$0	\$0	\$0	\$0	\$0	(\$100,000)	\$0
2017-2022 CIP F-350 Utility Vehicle Replacement	\$0	\$0	\$0	\$0	\$0	(\$60,000)	\$0
Estimated Ending Balance	\$80,695	\$110,695	\$230,695	\$360,695	\$345,695	\$445,695	\$425,695

- Projected Department of Public Works Equipment and Vehicles Capital Reserve Fund activity based on the 2017-2022 Capital Improvement Program:

Table No. 20

DPW Equipment/Vehicles	2016	2017	2018	2019	2020	2021	2022
Beginning Balance	\$47,623	\$37,623	\$37,623	\$47,623	\$67,623	\$97,623	\$137,623
Additions:	\$240,000	\$250,000	\$260,000	\$270,000	\$280,000	\$290,000	\$300,000
Withdrawals:	(\$250,000)						
2017-2022 CIP DPW Fleet/Equipment Replacement	\$0	(\$250,000)	(\$250,000)	(\$250,000)	(\$250,000)	(\$250,000)	(\$250,000)
Estimated Ending Balance	\$37,623	\$37,623	\$47,623	\$67,623	\$97,623	\$137,623	\$187,623



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- Projected Recreation and Parks Department Improvements and Equipment Capital Reserve Fund activity based on the 2017-2022 Capital Improvement Program:

Table No. 21

Recreation and Parks Improvements and Equipment	2016	2017	2018	2019	2020	2021	2022
Beginning Balance	\$10,000	\$40,000	\$70,000	\$100,000	\$130,000	\$160,000	\$190,000
Additions:	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000
Withdrawals:	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Estimated Ending Balance</b>	<b>\$40,000</b>	<b>\$70,000</b>	<b>\$100,000</b>	<b>\$130,000</b>	<b>\$160,000</b>	<b>\$190,000</b>	<b>\$220,000</b>

The Recreation and Parks Department Equipment and Vehicles Capital Reserve Fund was established on December 17, 2014 for the purpose of accumulating resources in order to acquire and to effect major repairs, maintenance and/or upgrades of related equipment and vehicles. The purpose of this fund was expanded by the City Council to include related infrastructure and facility improvements (and, in the process, changing the name to recognize that to Recreation and Parks Department Improvements and Equipment Capital Reserve Fund); it is intended to provide latitude in the event addressing issues at the Storrs Hill Lodge, skate park and swimming pool, to name three venues, should arise. The City Manager was named as the agent of the City to carry out the purpose of the Fund established by the City Council.

- Future withdrawals from the Parking Facilities Repairs and Maintenance Capital Reserve Fund are expected to be offset by lease proceeds.

Table No. 22

Parking Facilities Repairs/Maintenance	2016	2017	2018	2019	2020	2021	2022
Beginning Balance	\$0	\$13,325	\$20,325	\$27,325	\$34,325	\$41,325	\$48,325
Additions:	\$13,325	\$7,000	\$7,000	\$7,000	\$7,000	\$7,000	\$7,000
Withdrawals:	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Estimated Ending Balance</b>	<b>\$13,325</b>	<b>\$20,325</b>	<b>\$27,325</b>	<b>\$34,325</b>	<b>\$41,325</b>	<b>\$48,325</b>	<b>\$55,325</b>

On February 10, 2015, the City Council established a City-owned parking facility (lot) at 4 Suzor Court (Tax Map 78, Lot 35) in the Residential-Tree (R-3) zoning district; declared that as City-maintained facility the parking lot shall be deemed to be a governmental use under the provisions of RSA 674:54, which shall be exempt from site plan review regulations; and authorized the City Manager to execute lease agreements for the use of parking spaces at the 4 Suzor Court parking facility. According to meeting minutes, the then City Manager indicated that lease "... income will go into a capital reserve fund to be used for infrastructure maintenance and repair." (The initial lease term is three-years at \$7,000 per year; the tenant is Geokon, Inc.)

When establishing the new Parking Facilities Repairs And Maintenance Capital Reserve Fund, the City Council named the City Manager for the City. At some point establishing a Parking Fund (a special revenue fund where resource -- that is, revenues -- and requirements -- that is, expenditures -- are segregated) may be warranted. That point seems to be sometime in the future when, or if, other revenue sources are developed. For now, the Capital Reserve Fund appears to be an in-and-out circumstance.

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- The Police Department Equipment, Vehicles and Improvements Capital Reserve Fund is new for 2017. Its purpose is to aggregate resources intended to acquire and/or effect repairs, maintenance and upgrades of related equipment, vehicles and facilities. The City Manager is named as the agent of the City to carry out the purpose of the fund established by the City Council. Projected additions to this fund are:

Table No. 23

<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
\$30,000	\$30,000	\$30,000	\$30,000	\$30,000

**2017 Capital Reserve Fund transfers from the Solid Waste Disposal Fund are \$562,410, an increase of \$7,860, or 1.4%, from 2016.**

Table No. 24

<u>Program</u>	<u>2015 Budget</u>	<u>2016 Budget</u>	<u>2017 Budget</u>	<u>\$ Chg.</u>	<u>%Chg.</u>
Landfill Equipment	\$75,000	\$75,000	\$75,000	\$0	0.0%
Landfill Closeout/Long-Term Monitoring and Maintenance	\$309,760	\$322,500	\$322,500	\$0	0.0%
Landfill Extended Long-Term Monitoring and Maintenance	\$149,570	\$157,050	\$164,910	\$7,860	5.0%
Total	<u>\$534,330</u>	<u>\$554,550</u>	<u>\$562,410</u>	<u>\$7,860</u>	<u>1.4%</u>

The Lebanon Regional Solid Waste Facility consists of a closed unlined municipal solid waste (MSW) landfill, closed construction and demolition debris landfill (C&D), and a lined MSW landfill. In addition to processing City municipal solid waste (MSW), MSW is accepted from 12 Vermont and 11 New Hampshire communities.

Owners of municipal solid-waste landfills are required to provide financial assurance that they will meet their legal obligation to close, monitor, and maintain (30-year period) the landfill site properly once it is no longer in active use. Monthly the City sets aside, in a dedicated capital reserve fund (closeout/long-term monitoring and maintenance secured landfill capital reserve fund), payments based on processed tonnage and a per ton rate determined annually by the City's engineers and approved by the New Hampshire Department of Environmental Services (NHDES). An extended long-term monitoring and maintenance entire facility capital reserve fund is also maintained and funded to provide long-term monitoring and maintenance for 100-years for the closed unlined landfill and construction and demolition debris landfill in addition to all landfills after the nominal 30-year period.

Table No. 25 - 28 show the status of the four Solid Waste Disposal Fund (landfill service rate supported) capital reserve funds through 2022, including deposit and withdrawal projections, based on the 2017 – 2022 Capital Improvement Program. (Current year portfolio changes are excluded.)

## 2017 CITY BUDGET – Section 6 Interfund Transfers

Table No. 25

Landfill Equipment	2016	2017	2018	2019	2020	2021	2022
Beginning Balance	\$358,638	\$273,638	\$348,638	\$38,638	\$138,638	\$178,638	\$278,638
Additions:	\$75,000	\$75,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Withdrawals:	(\$160,000)						
2017-2022 CIP Compactor Rebuild #40-07	\$0	\$0	(\$410,000)	\$0	\$0	\$0	\$0
2017-2022 CIP Recycling Center Skid Steer Replacement	\$0	\$0	\$0	\$0	(\$60,000)	\$0	\$0
<b>Estimated Ending Balance</b>	<b>\$273,638</b>	<b>\$348,638</b>	<b>\$38,638</b>	<b>\$138,638</b>	<b>\$178,638</b>	<b>\$278,638</b>	<b>\$378,638</b>

Table No. 26

Landfill Improvements	2016	2017	2018	2019	2020	2021	2022
Beginning Balance	\$830,248	\$580,248	\$300,248	\$300,248	\$300,248	\$150,248	\$150,248
Additions:	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Withdrawals:	(\$250,000)						
2017-2022 CIP Phase III Preliminary Design	\$0	\$0	\$0	\$0	(\$150,000)	\$0	\$0
2017-2022 CIP Truck Scale Replacement	\$0	(\$280,000)	\$0	\$0	\$0	\$0	\$0
<b>Estimated Ending Balance</b>	<b>\$580,248</b>	<b>\$300,248</b>	<b>\$300,248</b>	<b>\$300,248</b>	<b>\$150,248</b>	<b>\$150,248</b>	<b>\$150,248</b>

Table No. 27

Landfill Extended Long-Term Monitoring and Maintenance	2016	2017	2018	2019	2020	2021	2022
Beginning Balance	\$1,522,903	\$1,679,953	\$1,844,863	\$2,018,023	\$2,199,843	\$2,390,763	\$2,591,233
Additions:	\$157,050	\$164,910	\$173,160	\$181,820	\$190,920	\$200,470	\$210,500
Withdrawals:	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Estimated Ending Balance</b>	<b>\$1,679,953</b>	<b>\$1,844,863</b>	<b>\$2,018,023</b>	<b>\$2,199,843</b>	<b>\$2,390,763</b>	<b>\$2,591,233</b>	<b>\$2,801,733</b>

Table No. 28

Landfill Closeout/Long-Term Monitoring and Maintenance Secured (lined) Facility	2016	2017	2018	2019	2020	2021	2022
Beginning Balance	\$6,490,107	\$6,812,607	\$7,135,107	\$7,473,737	\$7,829,307	\$8,202,657	\$8,594,677
Additions:	\$322,500	\$322,500	\$338,630	\$355,570	\$373,350	\$392,020	\$411,630
Withdrawals:	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Estimated Ending Balance</b>	<b>\$6,812,607</b>	<b>\$7,135,107</b>	<b>\$7,473,737</b>	<b>\$7,829,307</b>	<b>\$8,202,657</b>	<b>\$8,594,677</b>	<b>\$9,006,307</b>

**2017 Capital Reserve Fund transfer from the Water Treatment and Distribution Fund is \$250,000, unchanged from 2016.**

Table No. 29

Program	2015 Budget	2016 Budget	2017 Budget	\$ Chg.	%Chg.
Water Treatment and Distribution Improvements and Equipment	\$250,000	\$250,000	\$250,000	\$0	0.0%

- Projected Water Treatment and Distribution Improvements and Equipment Capital Reserve Fund activity based on the 2017-2022 Capital Improvement Program:

Table No. 30

Water Treatment and Distribution Improvements and Equipm	2016	2017	2018	2019	2020	2021	2022
Beginning Balance	\$359,229	\$559,229	\$649,229	\$849,229	\$1,049,229	\$1,249,229	\$1,449,229
Additions:	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000
Withdrawals:	(\$50,000)						
2017-2022 CIP DPW Fleet/Equipment Replacement	\$0	(\$50,000)	(\$50,000)	(\$50,000)	(\$50,000)	(\$50,000)	(\$50,000)
2017-2022 CIP Water Treatment Facility Improvements	\$0	(\$110,000)	\$0	\$0	\$0	\$0	\$0
2017-2022 CIP Streets Rehabilitation and Reconstruction	\$0	\$0	\$0	\$0	\$0	\$0	(\$650,000)
<b>Estimated Ending Balance</b>	<b>\$559,229</b>	<b>\$649,229</b>	<b>\$849,229</b>	<b>\$1,049,229</b>	<b>\$1,249,229</b>	<b>\$1,449,229</b>	<b>\$999,229</b>

**2017 Capital Reserve Fund transfer from the Sewage Collection and Disposal Fund is \$250,000, unchanged from 2016.**

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Table No. 31

Program	2015 Budget	2016 Budget	2017 Budget	\$ Chg.	%Chg.
Sewage Collection and Disposal Improvements and Equipment	\$250,000	\$250,000	\$250,000	\$0	0.0%

- Projected Sewage Collection and Disposal Improvements and Equipment Capital Reserve Fund activity based on the 2017-2022 Capital Improvement Program:

Table No. 32

Sewage Collection and Disposal Improvements and Equipme	2016	2017	2018	2019	2020	2021	2022
Beginning Balance	\$87,651	\$287,651	\$17,651	(\$2,349)	\$277,651	\$67,651	\$347,651
Additions:	\$250,000	\$250,000	\$330,000	\$330,000	\$330,000	\$330,000	\$330,000
Withdrawals:	(\$50,000)						
2017-2022 CIP CMOM (Capacity Management Operations M	\$0	(\$300,000)	(\$300,000)	\$0	\$0	\$0	\$0
2017-2022 CIP DPW Fleet/Equipment Replacement	\$0	(\$50,000)	(\$50,000)	(\$50,000)	(\$50,000)	(\$50,000)	(\$50,000)
2017-2022 CIP Loader Replacement	\$0	(\$80,000)	\$0	\$0	\$0	\$0	\$0
2017-2022 CIP Underground Fuel Storage Tank Replaceme	\$0	(\$90,000)	\$0	\$0	\$0	\$0	\$0
2017-2022 CIP	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2017-2022 CIP	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2017-2022 CIP	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2017-2022 CIP Mack Avenue Utility Replacement	\$0	\$0	\$0	\$0	(\$490,000)	\$0	\$0
2017-2022 CIP Streets Rehabilitation and Reconstruction	\$0	\$0	\$0	\$0	\$0	\$0	(\$110,000)
<b>Estimated Ending Balance</b>	<b>\$287,651</b>	<b>\$17,651</b>	<b>(\$2,349)</b>	<b>\$277,651</b>	<b>\$67,651</b>	<b>\$347,651</b>	<b>\$517,651</b>

## Addendum

**Municipal Airport Fund Subsidy Provided by General Fund** -- City money is pooled for investment and cash management purposes. Records are maintained identifying ownership of cash by fund. Cash inflows and outflows associated with pooled cash are accounted for in the General Fund. The normal interfund relationship – that is, cash inflows of other funds exceeding cash outflows – is the General Fund owing money to other City funds and other City funds correspondingly owed money by the General Fund. Prior to December of 2008, the continued and growing Municipal Airport Fund deficit (both cash position and spendable fund balance) impacted the General Fund as the net effect was an interfund loan being created whose repayment appeared problematic thus resulting in an overstatement of General Fund spendable fund balance.

For year end 2006, \$80,106.21 – that is, the Municipal Airport Fund year end 2005 spendable fund balance deficit – was reserved in the General Fund as due from the Municipal Airport Fund. For year end 2007, the additional sum of \$185,391.12 – that is, the Municipal Airport Fund year end 2006 spendable fund balance deficit increase – was reserved, making the total amount reserved in the General Fund as due from the Municipal Airport Fund \$265,497.33. For year end 2008, \$514,278.23 was further reserved, bringing the total amount reserved to \$779,775.56. The method employed at the time was that for each subsequent year, the immediate prior year’s net results, whether a deficit (expenditures exceeding revenues) or surplus (revenues exceeding expenditures), would be used to adjust the interfund (payable/receivable) balances.

The extent to which the Municipal Airport Fund’s spendable fund balance deficit increased, thus increasing the amount the General Fund reserved as a Municipal Airport Fund receivable, had the potential of effectively requiring that the municipal property tax be raised in order to maintain the General Fund spendable fund balance target. Put differently, the amount incrementally reserved are

## 2017 CITY BUDGET – Section 6 Interfund Transfers

funds that could otherwise could have gone to either restore, or maintain, the General Fund spendable fund balance, or used to mitigate property taxes. Policy considerations were being preempted by otherwise proper accounting procedure.

This was remedied by City Council action which amended Chapter 8: Airport Operations of the Code of the City of Lebanon. On December 3, 2008, the City Council deleted Section 8-3 thereby providing the option henceforth of transferring funds to the Municipal Airport Fund. Prior to amendment, Section 8-3 required the Lebanon Airport to be self-supporting on revenue generated from commercial activities. This also cleared the way for succinctly identifying the Municipal Airport's impact is on property taxes.

At year end 2008, the General Fund's reserved for special purposes (Municipal Airport Fund) was \$779,775.56, as noted above, reflecting the Municipal Airport Fund's year end 2007 cumulative deficit (consisting of deficits carried forward from 2005 through 2007).

In connection with adopting the 2009 City Budget, the City Council appropriated \$779,776 as an expenditure contribution (subsidy) from the General Fund to the Municipal Airport Fund (recognized as contributed revenue) for the purpose of eliminating the accumulated Municipal Airport Fund spendable fund balance deficit for year end 2007, thus eliminating the prior accounting to reserve in the General Fund accumulated Municipal Airport Fund deficits.

The intent regarding the nature of the 2009 transfer, and subsequent transfers, delineated below, is the technical, but important, distinction that future transfers are not loans, or advances, but rather subsidies, or contributions, to the Municipal Airport Fund. A loan or advance would not address the fund deficit issue as proceeds to the Municipal Airport Fund would be classified as a liability (an obligation) and not as revenue (a resource). With commencement of the annual appropriation to the Municipal Airport Fund, as long as deficit conditions continue, the reservation of funds in the General Fund will cease, and future transfer impact on the municipal tax rate will be recognized on a contemporaneous basis.

With respect to action in connection with adopting future budgets, the plan and methodology is to annually budget moneys sufficient to address the actual Municipal Airport Fund deficit from two-years preceding the budgeted year, based on operating results from actual audited expenditures, revenues and encumbrances (purchase orders outstanding) and other adjustments that may affect the Municipal Airport Fund's spendable fund balance.

- While the subsidy calculation is contemporaneous, the numbers on which it is based are not. It was felt important that the calculation be based on objective, independently verified information. The calculation is therefore based on the most recently available audited (cumulative) fund balance; NOT the result of a single year's activity. For example, the 2015 budgeted subsidy was based on the 2013 audit; the 2016 budgeted subsidy was based on the 2014 audit.
- Activity means the net result of the difference between *actual* revenues less *actual* expenditures. Fund balance increases when *actual* revenues exceed expenditures and decreases when *actual* revenues are less than *actual* expenditures.

## 2017 CITY BUDGET – Section 6 Interfund Transfers

- Three years are involved with each calculation -- an audit year, a current year and a budget year (the year for which the subsidy is being calculated). In the instance of calculating the 2016 subsidy: 2014 is the audit year, 2015 the current year and 2016 the budget year. The Municipal Airport Fund deficit is “adjusted” for the “current year” subsidy transfer, otherwise the “budget year” subsidy transfer calculation would include the transfer and be overstated; there may be rounding anomalies.
- Revenue is assumed static and 2% increases in personnel services, contractual services and materials and supplies is assumed for projected years; tax rate impact is based on 0.50% growth in the City’s net assessed valuation for calculating the rate.

### **Through 2016, \$2,230,495 has been transferred as a subsidy from the General Fund to the Municipal Airport Fund.**

2009 Subsidy -- \$779,776: In the 2009 City Budget as revenue to the Municipal Airport Fund and expenditure from the General Fund \$779,776 with an estimated municipal tax rate impact of \$0.44 per \$1,000 of assessed value.

2010 Subsidy -- \$446,680: The adjusted Municipal Airport Fund deficit for 2010 is <\$446,680> (2008 audited cumulative deficit of <\$1,226,451> less the 2009 transfer of \$779,776), which is in the 2010 City Budget as revenue to the Municipal Airport Fund and expenditure from the General Fund with an estimated municipal tax rate impact of \$0.24 per \$1,000 of assessed value.

2011 Subsidy -- \$270,140: The adjusted Municipal Airport Fund deficit for 2011 is <\$270,140> (2009 audited cumulative deficit of <\$716,815> less the 2010 transfer of \$446,680), which is in the 2011 City Budget as revenue to the Municipal Airport Fund and expenditure from the General Fund with an estimated municipal tax rate impact of \$0.15 per \$1,000 of assessed value.

2012 Subsidy -- \$198,480: the adjusted Municipal Airport Fund deficit for 2012 is <\$198,480> (2010 audited cumulative deficit of <\$468,418> less the 2011 transfer of \$270,140), which is in the 2012 City Budget as revenue to the Municipal Airport Fund and expenditure from the General Fund with an estimated municipal tax rate impact of \$0.11 per \$1,000 of assessed value. (There was a small rounding error; \$198,480 should have been \$198,280.)

2013 Subsidy -- \$215,590: the adjusted Municipal Airport Fund deficit for 2013 is <\$215,590> (2011 audited cumulative deficit of <\$414,065> less the 2012 transfer of \$198,480), which is in the 2013 City Budget as revenue to the Municipal Airport Fund and expenditure from the General Fund with an estimated municipal tax rate impact of \$0.12 per \$1,000 of assessed value.

2014 Subsidy -- \$169,600: the adjusted Municipal Airport Fund deficit for 2014 is <\$169,600> (2012 audited cumulative deficit of <\$385,188> less the 2013 transfer of \$215,590), which is in the 2014 City Budget as revenue to the Municipal Airport Fund and expenditure from the General Fund with an estimated municipal tax rate impact of \$0.09 per \$1,000 of assessed value.

2015 Subsidy -- \$39,940: the adjusted Municipal Airport Fund deficit for 2015 is <\$39,940> (2013 audited cumulative deficit of <\$209,534> less the 2014 transfer of \$169,600), which is in the 2015 City

## 2017 CITY BUDGET – Section 6 Interfund Transfers

Budget as revenue to the Municipal Airport Fund and expenditure from the General Fund with an estimated municipal tax rate impact of \$0.02 per \$1,000 of assessed value.

2016 Subsidy – \$110,290: the adjusted Municipal Airport Fund deficit for 2016 is <\$110,290> (2014 audited cumulative deficit of <\$150,219> less the 2015 transfer of \$39,940), which is in the 2016 City Budget as revenue to the Municipal Airport Fund and expenditure from the General Fund with an estimated municipal tax rate impact of \$0.06 per \$1,000 of assessed value.

2017 Projected Subsidy -- \$236,850: the adjusted Municipal Airport Fund deficit for 2017 is <\$236,850> (2015 estimated cumulative deficit of <\$347,134> less the 2016 transfer of \$110,290), which is in 2017 City Budget as revenue to the Municipal Airport Fund and expenditure from the General Fund with an estimated municipal tax rate impact of \$0.13 per \$1,000 of assessed value.

2018 Projected Subsidy -- \$456,720: the adjusted Municipal Airport Fund deficit for 2018 is <\$456,720> (2016 estimated cumulative deficit of <\$693,563> less the 2017 transfer of \$236,850); which may be in the 2018 City Budget as a revenue to the Municipal Airport Fund and an expenditure from the General Fund with an estimated municipal tax rate impact of \$0.24 per \$1,000 of assessed value.

2019 Projected Subsidy -- \$395,550: the adjusted Municipal Airport Fund deficit for 2019 is <\$395,550> (2017 estimated cumulative deficit of <\$852,263> less the 2018 transfer of \$456,720), which may be in the 2019 City Budget as revenue to the Municipal Airport Fund and expenditure from the General Fund with an estimated municipal tax rate impact of \$0.21 per \$1,000 of assessed value.

2020 Projected Subsidy -- \$501,180: the adjusted Municipal Airport Fund deficit for 2020 is <\$501,180> (2018 estimated cumulative deficit of <\$896,726> less the 2019 transfer of \$395,550), which may be in the 2020 city budget as revenue to the Municipal Airport Fund and expenditure from the General Fund with an estimated municipal tax rate impact of \$0.26 per \$1,000 of assessed value.

2021 Projected Subsidy -- \$403,130: the adjusted Municipal Airport Fund deficit for 2021 is <\$403,130> (2019 estimated cumulative deficit of <\$904,298> less the 2020 transfer of \$501,180), which may be in the 2021 City Budget as revenue to the Municipal Airport Fund and expenditure from the General Fund with an estimated municipal tax rate impact of \$0.21 per \$1,000 of assessed value.

2022 Projected Subsidy -- \$422,460: the adjusted Municipal Airport Fund deficit for 2021 is <\$403,130> (2020 estimated cumulative deficit of <\$825,576> less the 2021 transfer of \$403,130), which may be in the 2021 City Budget as revenue to the Municipal Airport Fund and expenditure from the General Fund with an estimated municipal tax rate impact of \$0.22 per \$1,000 of assessed value.

- On May 21, 1997, the City Council resolved that the net proceeds of land sales from 1998 onward be segregated and accounted for within the airport fund so as to ensure that the principal amount not be expended for current operations of the Municipal Airport either within the current fiscal year or any fiscal year thereafter. Total land sale revenues from 1998 to 2001 were \$463,198. On November 25, 2003, the City Council approved reclassifying \$406,063 of reserved land sales to unreserved fund balance leaving \$57,135 as continued reserve land sales as 50% of \$114,270, 2001 land sale proceeds that must be spent on Airport related (but non-AIP) capital improvements (since spent).

## 2017 CITY BUDGET – Section 6 Interfund Transfers

Passenger Facility Charge Fees: With congressional approval, commercial airports controlled by public agencies began imposing passenger facility charge (PFC) fees -- collected via airline tickets-- on June 1, 1992, at up to \$3.00 per passenger enplanement (\$12.00 per round trip). Congress raised the cap to \$4.50 (\$18.00 per round trip) effective April 1, 2001. PFC fees are federally authorized but levied by local airport operators, which set the amounts. PFC fees can fund only federally approved capital improvements that enhance safety, security, or capacity; reduce noise; or increase air carrier competition.

The amount of PFC fees received is a function of annual passenger enplanements. For example, 10,000 passenger enplanements per year translates into PFC fees of \$45,000. As enplanements increase, so do the amount of PFC fees received and that are consequently available to be applied toward contemporaneous funding of the cumulative local share of appropriated projects (Federal Aviation Administration authorized to impose and collect amounts by project). The larger the project the larger the local share financed by PFC fees and, depending on project activity, the longer timeframe for collecting the charges. If PFC fees are not available, or not available in their entirety, the City would need to look to alternative financing such as debt issuance or budget transfers with the resultant debt service (principal and interest) payments and transfers supported by the Municipal Airport Fund. At present, operating income for the Municipal Airport Fund is insufficient to sustain operations on its own. Annually money is budgeted in the General Fund, which is primarily property tax supported, to address the Municipal Airport Fund operating deficit from the immediate preceding year based on actual audited expenditures, revenues, and encumbrances (purchase orders outstanding), and other adjustments that may affect the Municipal Airport Fund spendable fund balance.

Federal Grant Obligations: When accepting funds from FAA-administered airport financial assistance programs, the City must agree to certain obligations or assurances. These obligations require the City to maintain and operate the Lebanon Municipal Airport safely and efficiently and in accordance with specified conditions. The duration of these obligations depends on the type of recipient, the useful life of the facility being developed, and other conditions stipulated in the assurances – in return the City receives 90% grant funding from the FAA (subject to change).

Essential Air Service (EAS): is a federal program enacted to guarantee that small communities in the United States, which, prior to deregulation, were served by certificated airlines, maintained commercial service. Its aim is to maintain a minimal level of scheduled air service to these communities that otherwise would not be profitable. This came in response to the Airline Deregulation Act, passed in 1978, which gave U.S. airlines almost total freedom to determine which markets to serve domestically and what fares to charge for that service.

The United States Department of Transportation subsidizes airlines to serve rural communities across the country that otherwise would not receive any scheduled air service. The decision as to what degree of subsidized service a community requires is made based on identifying a specific hub for the community and from there determining the number of trips, seats, and type of aircraft that are necessary to reach that hub.



## 2017 CITY BUDGET – Section 6 Interfund Transfers

Should the loss of essential air service subsidy occur at some point in the future, commercial flights may cease with the result being that passenger facility charge fees and airport revenues would be substantially reduced. This would require continued compliance with FAA grant assurances and possibly the shifting of City funding (local share) of Airport capital projects to long-term debt (not unlike the funding of most City capital improvements) and, depending on the financial status of the Municipal Airport Fund, to General Fund subsidy and absorption in the municipal tax rate. Debt service for Airport capital improvements (hangars) is currently being retired from Airport-generated revenue.

State Budget: The vagaries of the State budget process introduce uncertainty as to what may be reasonably expected in terms of grant assistance from the New Hampshire Department of Transportation – Bureau of Aeronautics. Shortfalls are shifted to the local share of an improvement – i.e. passenger facility charge fees – just as state elimination or decrease in other revenues (e.g. revenue sharing and water pollution control grants) have negatively impacted all municipal budgets.

# 2017 CITY BUDGET – Section 6 Interfund Transfers

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