

**SPECIAL MEETING
BOARD OF MAYOR AND ALDERMEN
IN JOINT SESSION WITH THE
BOARD OF SCHOOL COMMITTEE**

November 26, 2002

6:00 PM

Mayor Baines called the special joint meeting to order.

Mayor Baines called for the Pledge of Allegiance, this function being led by School Committee Member Beaudry.

A moment of silent prayer was observed.

The Clerk called the roll.

Present:

Board of Aldermen:

Wihby, Gatsas, Guinta, Sysyn, Osborne, Pinard, O'Neil, Lopez,
Shea, DeVries (late), Garrity, Smith, and Forest

Board of School Committee:

Stewart, Donovan, Herbert, Gross, Kacavas, Kelley-Broder (late), Paradis,
Beaudry, Cote, and Ouellette (late)

Absent:

Alderman Thibault
School Committee Members O'Brien-Thayer, Labanaris,
Healy, and Perry

Mayor Baines stated before we begin I just want to call attention to Board members of a great feature article in NH Business View this week. I will pass it around but I would like it back. They are talking about Manchester and the downtown being on the cusp of greatness and also a front-page story in the *Concord Monitor* talking about the stadium plan that we gave tentative approval to last week. It is really nice publicity about the City. Let me first start by thanking Leo and his staff and Roxanne Parkhurst from Public Service of NH for their work in putting this meeting together in this great venue. The purpose of tonight's meeting is to apprise the members of the Aldermanic Board and the School Board of the physical realities that the City and the School District face in the year to come. I have asked department heads and representatives of various labor unions to join us as well. The theme of today's presentation is an ounce of prevention is worth a pound of cure. If we are apprised of the fiscal realities that are likely to confront both Boards in the next year, we can take steps now to save money and insure the continuation of vital services at the level necessary to maintain our exemplary record making this one of the safest, cleanest and most livable cities of its size in the country. In addition to this collective heads up, it will afford us the opportunity to address these fiscal imperatives in a deliberative manner, one that

reassures the taxpayers of our resolve to tackle some tough issues with the seriousness they would expect. As you will see with the numbers I will reveal in a few minutes, the challenges that the City and the School District face are considerable but not insurmountable if we are willing to make some hard choices, offer concessions, consider compromise and resist the lure of entrenched positions. More than any time in recent memory, those gathered in this room will be required to act as one. Our desire to do what is in the best interest of all Manchester citizens must be greater than our desire to advance personal agendas or protect special interests. The need to balance providing vital City services, especially in the areas of police, fire and schools, our obligation to the taxpayers should outweigh all other considerations. First the good news. It appears as though both revenue and expense projections for the current fiscal year are right on target and that because of heightened levels of oversight and new leadership at the Welfare Department we will not have to deal this year with deficits in that office. Manchester remains in an enviable economic position. While this City like all cities is confronting what various experts have described as economic slowdown, or soft patch, the financial picture for the City is comparatively bright. As other cities and many states are confronting enormous deficits, again many cities and states are confronting enormous deficits and double-digit property tax increases, Manchester was able in the recently concluded fiscal year to add to its rainy day fund and to close its books with a surplus. In essence, Manchester is still the master of its fate while other municipalities are at the fate of unseen economic forces. As Mr. Clougherty so aptly put it in a meeting this morning, this position of relative strength enables us to face our budgetary challenges with the mentality of a surgeon with a scalpel and not that of a butcher swinging a meat cleaver. Now for the challenges. In the next fiscal year the City and School District face a number of budgetary non-negotiables. That is obligations that even the most skilled surgeon could not cut away. We are obliged to make good on contractual agreements with our workers. We are also obliged to pay increased medical costs, although I will speak more on that topic in a moment. We are obliged on the City side to pay the remaining \$1.5 million to resolve the school deficit issue that began in 1999 before many of us sat around these tables. In what is literally a cosmic twist, we are obliged to meet 53 payrolls instead of the usual 52 because of dictates of the calendar. There are, however, a number of options available to offset these demands on the budget. First, we are projecting conservatively that revenues will grow at 1%. Next, we anticipate an Adequacy Grant of approximately \$2 million in addition to what we received this past year, although we must be cognizant of the fact that Governor-Elect Benson has warned municipalities of changes he wishes to make with this formula. The fund balance should yield an additional \$600,000 and an increased tax base could account for additional revenue. Let me dwell for a moment on the other issues listed on this slide. As unpalatable as it may seem to some, a responsible recycling program for Manchester is inevitable for two reasons. First, it is the right thing to do for the environment and second it is the right thing to do for the budget. Conservative estimates from the Highway Department have consistently indicated that a minimum of \$2 million could be generated by such a program. As is the case with any change, there will be resistance and the need on our part to educate the public about the benefits of such a program, including the benefits of evenly

distributing the cost of paying for garbage disposal. As it stands now, those who recycle are paying with their tax dollars the costs associated with the separation and disposal of the rubbish thrown together in one barrel by those who do not recycle. Those are the facts. I will give an example. We have separated all kinds of things from our waste, including yard waste, tires, paint, all kinds of building materials that used to be all be thrown out. We have successfully separated that. The only thing we haven't successfully separated are things like bottles and cans and things that we use in our households because, quite frankly, many of us are too lazy to do it. It is at the point now where it is costing us millions of dollars. That is not right. If one citizen is totally committed to recycling and your neighbor isn't, the person who is committed to recycling is paying through tax dollars the cost of every citizen who does not recycle. That is why in communities when they have put in a responsible recycling program and there has been a movement to take it away, the citizens have voted not to take it away because they realize the millions of dollars of savings that could be incurred. As politically unpopular as a true recycling program may seem to some, I submit to you without the savings it generates we will be forced to remove our surgical masks and don the butcher's bloody apron to wield the cleaver at the vital City services such as police, fire and education. We must chose between trash and teachers, trash and police officers or trash and firefighters. I, for one, do not have a moment's hesitation determining which side I am on when faced with that choice and as I noted earlier, healthcare costs are skyrocketing at what is literally 15 to 20 times the rate of inflation. The City will continue to work on those concerns with employee wellness programs that address such issues as diet and exercise and that offer blood pressure screenings. In addition, the City will ask its employees to shoulder greater personal responsibility in this area. The healthcare package the City offers will continue to be one that is a reflection of the respect all in this room feel for those who work for us, but it will also be one that recognizes the reality of changing times and escalating costs. There must be greater participation by all of us. There has to be for us to get these costs under control. Reorganization is another solution to consider. The Aldermen have wrestled with a reorganization plan for the Assessor's Office that provides more bodies for less money. In addition, a plan for consolidating Human Services functions into a department of Human Services has been considered and plans for consolidating Traffic and Highway functions into one department are in the works along with a consolidation proposal for Planning, Building and Economic Development. There is no excuse for continued delay in these areas. Reductions in personnel are also on the table. Ideally, these reductions will take place through attrition, however, if need be it will be accomplished through consolidations or reductions in personnel. My intention is not to scare anyone with this pronouncement; rather my intention is to accurately describe the decisions that current economic circumstances will force us to make. The vast majority of City employees are amongst the hardest working and most dedicated professionals I have come in contact with but we must retain the right to address our budget challenges with staff reductions if hard decisions are not made. Another difficult decision forced by circumstances is one that will go into effect immediately - a moratorium on automatic pay increases for the City's highest paid managers. I will be directing the Human Resources Director to establish a merit-based

system that connects pay to performance. It is imperative to retain a system that rewards extraordinary efforts that the department has often made on behalf of the taxpayers but keeping one that provides well paid managers with automatic increases as their underlings face job losses and property owners face additional tax burdens is a luxury we cannot afford. Finally, I have directed all department heads today to limit their budget requests for the coming fiscal year to 2.5% above what was approved for this current fiscal year. It is a season of good tidings and great cheer but I am well aware that I have just deposited a lump of coal in many stockings. Our job over the next year is to apply all of our power of creativity to transform this lump of coal into a diamond that sparkles with the promise of delivering vital City services to our community. A lot of difficult decisions will have to be made and I realize the 2.5% may not be the ending point but it is much too early in the process to predict exactly what is going to happen with our tax base, what is going to happen with revenues, what is going to happen with the adequacy grant and what kind of decisions are going to be made around restructuring and reorganization in City government and what kind of decisions will be made to address responsible recycling. What other efforts or creativity might be amongst these Boards or amongst department heads and union people and people who work for the City to bring about greater efficiencies so we can confront these very significant economic challenges? I want to emphasize to you that many cities across our region and across our county are facing staggering deficits. I was at a meeting recently with a group of Mayors and they were talking about the deficits in cities across the country, including the City of Chicago, which is facing a \$300 million deficit. You have here on your board tonight indications of a community not too far from Manchester, Portland, ME that is experiencing an \$11.6 million deficit. A lot of this if not all of it is attributed to the downturn in the national economy, which a lot of people are not talking about. That is why we have those obligations to our pension plan that we normally would not be facing because we have to make up the difference because of what is happening with the stock market. Cranston, RI has a \$5 million deficit; Gresham, OR \$2.1 million; Raleigh, NC \$14.2 million; Boston, MA \$100 million and as I said the city of Chicago a \$300 million deficit. We ended the year last year with a spending surplus. Despite our declining revenues of over \$2 million, we managed to create a spending surplus of over \$4 million in addition to the cutbacks we made to guard against the Welfare deficit. I also told the department heads this morning that we are going to be monitoring revenues very, very closely and there may be a need to adjust the budgets that have already been allocated even further. We met over the past week to resolve issues relating to the hiring freeze and we have released the number of positions. We have also extracted close to \$350,000 additional out of existing budgets and I am putting that aside in a special reserve account that we will have to deal with personnel emergencies as they may arise in various departments in the City or at the end of the day to grow a stronger fund balance to help position ourselves in a more favorable light for the next fiscal year. While it may not be comforting and we will be passing some materials around in a short while that Kevin Clougherty put together to show you what is happening in communities across our nation, the fact of the matter is that we have to address what is happening right here in Manchester, NH and we must do so in a way that as we talked about

earlier must be done with great precision and with great thought. The idea of just slashing indiscriminate percentages out of departments is a lot easier to do but it doesn't get the job done and I would have rather...I guess if you talk about time management I would have rather done across the board cutting but we did was sit down with individual department heads and made decisions about various positions in government and the Chairman of the Board participated, as well as the Chairman of the Human Resources Committee. That is a sense of where we are. Seth, could you go back to the first slide so I can emphasize a few more things. Again, going back to what we were able to accomplish this year...the reason we are not projecting tax rates is because the reality is 12 months from now we could still be dealing with setting the tax rate depending on the changing economic times we face. Again, we are tracking revenues. I talked to my friends in the auto business and they are indicating that sales are remaining quite strong and that is good news. All revenues are tracking quite well. The next slide is the challenges we talked about...things that we really have very little control over. Obviously we have an obligation to open that fire station and as we make decisions we are going to have to talk about things like that because of the challenges that we face. Just so that everybody understands, here is the existing tax rate, \$25.68. If you raise taxes 1% that generates \$1.37 million in additional revenue. If you go up 2% it is \$2.68 million. 3% is \$4.05 million. 4% is \$5.42 million and 5% is \$6.74 million. That does not even come close to the obligations that are out there. That is why this is a very serious situation. To be honest with you, I have talked about these things at various meetings but I was not getting the sense that everybody was understanding the gravity of the situation. That is the purpose of the meeting today. What I would like to do now is to open the format to any questions and the Finance staff and others are available to answer questions as well.

School Committee Member Herbert asked in regards to that \$2 million, the educational increase, even if Governor-Elect Benson makes changes we wouldn't necessarily not get the additional \$2 million but in your figuring was that \$2 million included.

Mayor Baines replied we looked at that as something we could look at as at least encouragement that might exist. We also have to put out a warning that a lot of the towns are dealing with their budgets right now and they are going to be adopted in March and the Legislature...I know we have some people here who represent the Legislature but that may not be decided until some time in June.

School Committee Herbert stated on that chart right there you made a comment that even at the \$6.74 million level of increase that I think you said doesn't even come close...what is the obligation level.

Mayor Baines replied this doesn't include the schools. It doesn't include any increases in the schools.

Alderman Wihby asked when you were telling department heads that they could add 2.5% is that in that \$12.3 million.

Mayor Baines replied it will include any of the obligations of wages and any of the other obligations that will be in their budgets so in a sense, yes.

Alderman Wihby stated so there are still additional on top of the \$12.3 million.

Mayor Baines replied we are just going to see what 2.5% would represent and that is why I want them to begin making their presentations. We have given them, I think, until December 20th to get that information so we have a sense of what that would represent just so we have a place to start discussions.

Alderman Wihby asked do we know if the wage agreements are settled agreements.

Mayor Baines answered those are the total commitments, again, not settled.

Alderman Lopez asked on the recycling so that we don't go through the same process that we did last year when it was sprung upon us at the last minute, what type of timeframe has Frank Thomas put together to present this to the Board of Mayor and Aldermen and what kind of advertising is going to be done to the public to make sure that everybody understands instead of having it a last minute thing.

Mayor Baines replied Frank and his staff are in the process of putting that together and I know that they are looking at the City of Worcester as an example. We are very sensitive to that issue, Alderman Lopez, and it will be very timely.

School Committee Member Beaudry asked on the health insurance have there been any projections for next year on the cost of healthcare increases.

Mayor Baines stated Howard is here and maybe he can answer that.

Mr. Tawney replied nationally a 15% to 20% increase is what is expected. We had projected an 18% increase last year and it ended up that it worked out to 22.6% by the time we finished with negotiations.

School Committee Member Beaudry asked would the cost associated to that \$12.3 million...won't just the healthcare alone absorb basically the 2.5% increase.

Mayor Baines replied yes no question. This is why we are beginning the discussions now so people understand how dollars translate into taxes and spending translates into taxes. That is why we are having this meeting. We need to begin to educate the public about the

ramifications of these things as well and the seriousness of the situation that is being faced by our community and other communities.

Alderman Garrity asked do those numbers include a teacher's contract that is expiring June 30th.

Mayor Baines replied no. We made it very clear that we didn't put any numbers associated with the schools simply because of the uncertainty of that situation.

Alderman Garrity asked, Dr. Ludwell, do we have an estimation of what a 1%, 2% or 3% raise for the MEA contract is going to cost the district and City.

Dr. Ludwell answered under the current budget 1% is about \$800,000.

School Committee Member Ouellette stated going back to the health insurance number again, the \$1.5 million what does that number represent and does that include any school employees.

Mayor Baines replied no.

School Committee Member Ouellette asked what does the number represent.

Mayor Baines replied just the City's cost, not the School District's cost.

School Committee Member Stewart stated on a related matter the fiscal year audit report for the School District has been completed and our auditor, Mr. Plodzik, is going to give a presentation to the Board of School Committee Monday evening at 7:30 PM and we would like to cordially extend an invitation to all the members of the Board of Mayor and Aldermen and I have invitations here for you this evening.

Mayor Baines stated I would like to wish you and your families a very happy and joyous Thanksgiving. Despite the tough times we are in it is a time to enjoy family and friends and loved ones and I wish you a very happy Thanksgiving.

This being a special meeting of the Boards, no further business was presented and on motion of Alderman Garrity, duly seconded by Alderman Smith, it was voted to adjourn.

A True Record. Attest.

City Clerk