SPECIAL MEETING
BOARD OF MAYOR AND ALDERMEN
(CHARTER AMENDMENT PETITION)

September 5, 2008 | **4:00 PM**
Mayor and All Aldermen | **Aldermanic Chambers**
City Hall 3rd Floor

1. Mayor Guinta calls the meeting to order.

2. Mayor Guinta calls for the Pledge of Allegiance.

   A moment of silent prayer is observed.

3. The Clerk calls the roll.

4. Proposed amendment to the Manchester City Charter resulting from a voter petition initiative providing for the insertion of Section 6.15 Limitation on Budget Increases.
   Note: A copy of the proposed Charter amendment is attached including the effective date and a brief summary. Also included is correspondence from Bond Counsel, Financial Advisor, and a memorandum from the City Clerk's Office.
   If the Board so desires, a motion would be in order to send to public ballot.

5. Mayor Guinta advises that there being no further business, a motion is in order to adjourn.

The question for the proposed amendment reads as follows:

"Shall the municipality approve the charter amendment reprinted below?"

6.15 Limitation on Budget Increase.

A. Limitation on budget increase.
Recognizing that final tax rates for the City of Manchester are set by the New Hampshire Department of Revenue Administration pursuant to RSA 21-J:35-I, the board of Mayor and Aldermen of the City of Manchester and the Manchester School District shall develop their annual budget proposals and shall act upon such proposals in accordance with the mandates of this section.
Override Provision. Budgetary restrictions described in any part of section 6.15 may be overridden upon a vote of two-thirds (2/3) of all aldermen elected. Such override expires following adoption of the annual budget. Subsequent budgets are supplemental appropriations require additional two-thirds (2/3) override votes, or the limitations expressed in this section will apply.

1. In submitting their proposed budgets to the board of aldermen, the mayor and school district shall not propose total expenditures in an amount exceeding the budget established during the prior fiscal year increased by a factor equal to the change in the National Consumer Price Index-Urban as published by the United States Department of Labor for the calendar year immediately preceding the year of the budget adoption.
2. In establishing a combined municipal budget, the board of mayor and aldermen shall be allowed to assume an estimated property tax rate only in an amount not to exceed the tax rate established during the prior fiscal year increased by a factor equal to the change in the National Consumer Price Index – Urban as published by the United State Department of Labor for the calendar year immediately preceding the year of the budget adoption.

B. Exception to budget increase limitation. Capital expenditures, and the total or any part of the principal and interest payments of any municipal bond, whether established for school or municipal purposes, may be excepted from being included in the expenditures that are subject to the prior limitation upon a two-third (2/3) vote of all the aldermen elected. The exception made under this section shall expire upon adoption of the budget for the next budget year,

unless two-thirds (2/3) of all the aldermen elected, vote to renew the exception for the next budget year.

C. Budget limitation in a revaluation year. When the board of mayor and aldermen accepts an increase in real estate values as the result of a city wide revaluation, the board of mayor and aldermen shall adhere to a maximum increase in real estate tax revenue as follows: The real estate taxes raised from prior budget year shall not be increased by a factor more than the change in National Consumer Price Index – Urban as published by the United States Department of Labor for the calendar year immediately preceding budget adoption, then this figure shall be used in establishing the new municipal budget.

D. Budget limitation with annual changes in assessments. When annual changes in real estate values occur as a result of State of New Hampshire assessing requirements, the board of mayor and aldermen shall adhere to a maximum increase in real estate tax revenues as follows:

   1. The real estate taxes raised from the prior year shall not be increased by a factor of more than the change in the National Consumer Price Index – Urban as published by the United States Department of Labor for the calendar year immediately preceding budget adoption, plus real; estate taxes calculated by applying the prior year real estate tax rate to the net increase in new construction. "Net increase in new construction" is defined as the total dollar value of building permits less total dollar value of demolition permits issued for the period of April 1- March 31preceding budget adoption.

E. Total Expenditures. Total expenditures for any given budget year shall not exceed the amount of funds reasonably calculated to be derived by the tax rate established pursuant to Paragraph A.2. herein, increased by the other revenues generated by the City.

The Charter of the City of Manchester, adopted by voters at the election held on November 5, 1996, became effective on July 1, 1997. This amendment, if adopted, will become effective July 1, 2009.

The Charter amendment proposed through this referendum question is summarized as follows:

> This amendment is an attempt to limit increases in the municipal budget to increases in the National Consumer Price Index-Urban as published by the United States Department of Labor. This amendment contains various exceptions to the limitation and ability to override such limitations. Furthermore this amendment contains provisions for annual changes in real estate assessments and changes in assessments during revaluation years.

William E. Sanders
Finance Officer

CITY OF MANCHESTER
Finance Department

September 4, 2008

Honorable Board of Mayor and Aldermen
C/O Matthew Normand
One City Hall Plaza
Manchester, NH 03101

Re: Letters from Bond Counsel and Financial Advisor

Dear Honorable Board:

Attached for your review are letters received from Bob Beinfield (Bond Counsel) and June Matte (Financial Advisor) regarding the proposed Charter Amendment entitled "Limitations on Budget Increase."

Respectfully Submitted,

William E. Sanders
Finance Officer

Attachments (2)

cc: Tom Clark, City Solicitor
Tom Arnold, Deputy City Solicitor
Dave Cornell, Assessors Office

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September 3, 2008

City of Manchester, New Hampshire

Mr. William E. Sanders
Finance Officer
Finance Department
City Hall, 2nd Floor
One City Hall Plaza
Manchester, New Hampshire 03101

Dear Bill:

As requested, we have reviewed the proposed amendment to the City Charter which would add a new Section 6.15 entitled "Limitation on Budget Increase". The proposed amendment would, in general and subject to certain exceptions, place limitations on the annual budgetary expenditures of the City and the annual estimated property tax rate of the City.

The City has in the past, and may in the future, issue general obligation public improvement bonds to finance various capital projects. Principal and interest payments on these bonds are currently secured by the full faith and credit of the City and the City is obligated to levy ad valorem taxes on all the taxable property in the City, without limitation as to rate or amount, in order to make such principal and interest payments. The proposed amendment may have the effect of placing a limitation on this "unlimited" obligation of the City to pay principal and interest on the bonds. Please be advised that the proposed amendment may, therefore, have an adverse effect on either the credit ratings assigned to such bonds by the rating agencies or the rates of interest offered for such bonds by investors.

The proposed amendment may also affect existing covenants and agreements made for the benefit of bondholders. For example, the City has previously issued airport revenue bonds that are payable solely from revenues of the Manchester-Boston Regional Airport. The bond resolution under which such bonds were issued requires that rates and charges at the Airport be set and maintained at certain prescribed levels. The expenditure limitation set forth in the proposed amendment may adversely affect the ability of the City to comply with this covenant.

In addition, certain provisions of the proposed amendment would seem to require interpretation or clarification. First, the proposed amendment does not specifically state whether enterprise funds that generate revenues from sources other than property taxes, such as the Airport, would be subject to the expenditure limitation. Second, the proposed amendment authorizes capital expenditures and principal and interest payments on any municipal bond to be an exception from the expenditure limitation but seems not to authorize a corresponding exception to the limitation on the estimated property tax rate. Third, the expenditure limitation for principal and interest payments does not expressly apply to expenditures that are functionally equivalent to principal and interest payments on bonds such as swap payments, lease payments, installment sale payments and loan payments.

If either you or others have any questions with regard to the above or would like to further discuss the potential legal implications of the proposed amendment on the City's current and future bond financings, I would ask that you please not hesitate to contact me.

Very truly yours,

Bob

Robert H. Beinfield

RHB:gn
cc: Ms. Sharon Y. Wickens
E-mail and Federal Express

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September 4, 2008

Memorandum

To: Bill Sanders

From: June Matte

Re: Proposed Tax Cap Legislation

At your request we have reviewed the proposed tax cap legislation for issues that are related to the City's outstanding and proposed bonded debt. In reviewing the proposed legislation several features are worth noting.

Annual Debt Service Election

First, as proposed, the legislation would prohibit the issuance of general obligation debt as currently issued by the City. General obligation debt requires that the City pledge its unlimited taxing power to pay debt service. One of the elements of the proposed legislation as currently drafted is the requirement that for debt service to be placed outside of the cap, the Aldermen on an annual basis must vote to exclude the debt service in that given year from the cap. This is an unusual requirement compared to other examples of tax cap legislation that we have examined. In most cases, the election to include or exclude debt service on any given bond offering is made at the time of the issuance of the debt for its duration so that purchasers of the bonds know in advance that they will either have an unlimited general obligation of the municipality, i.e. full taxing power supporting the debt service or a more limited general obligation pledge, i.e. an obligation to raise taxes up to the specified limitation. By providing for the ability to place the debt service under the cap on an annual basis, the City is, practically speaking, negating its ability to issue general obligation bonds. If the flexibility to change the nature of the pledge can vary over time, the bonds will be classified as limited general obligations and will be rated lower than the City's current general obligation bond rating.

Rating Impacts

As discussed above, the uncertainty of whether debt service over time will be included or excluded from the cap will require that any bonds that are issued will be rated lower than the City's existing GO bond rating. The rating agencies usually apply a methodology whereby the rating is decreased ranging from one half notch (i.e. AA+ to AA) to a full notch (AA+ to A+). We have reached out to the rating agencies and are in the process of scheduling a more in-depth discussion within the next week to understand how the City's proposed legislation could impact the public bond ratings. We do know, however, that the change in the pledge to a limited GO pledge will have an impact on the way that bondholders view the debt and will result in a higher interest rate than would be obtained on the City's typical GO offerings. While difficult to measure at this point in time, the spreads

between the rating categories have widened recently as a result of the market turbulence caused by the failure of the auction rate market and the decline in the credit of the municipal bond insurers. In today's market, the incremental additional interest cost related to a half notch to a full notch downgrade of the City's debt rating related to LTGO debt would be in the range of 5 to 35 basis points representing approximately $57,000 to $463,500 in additional debt service over the 20 year life of $10 million bond transaction.

CPI-Urban[1]

As currently proposed, the legislation utilizes the Consumer Price Index – Urban (CPI-U) as the index for escalation. In some jurisdictions such as Massachusetts, the escalation rate is linked to a fixed percentage which is added on top of property tax assessment growth. The question arises whether the use of the CPI-U, which measures a market basket of individual consumers' goods and services is an appropriate proxy of the measure of inflation of the goods and services purchased by a municipality.

The CPI-U measures the consumption of families and individuals for 200 goods and services which include food, housing, apparel, transportation, medical care, recreation, education and other goods and services such as tobacco and personal services. The weighting of these individual components is based on the buying patterns of 7,000 urban and rural families. The use of the CPI-U may not accurately reflect the inflationary cost patterns of a municipality because of the components it tracks and the weighting it gives to each of these components. It would be difficult to know if the CPI-U would over or under-state the actual budget item costs increases experienced by the City over time. This could cause difficulties in budgeting over time if the index did not prove to be a true indicator of the City's escalating costs.

We would be glad to review these issues in more detail with you as the City reviews this proposed legislation in greater detail.

[1] See Appendix I for an explanation of the basket of goods that comprise CPI-Urban.

Appendix I - What goods and services does the CPI cover?[2]

The CPI represents all goods and services purchased for consumption by the reference population (U or W) BLS has classified all expenditure items into more than 200 categories, arranged into eight major groups. Major groups and examples of categories in each are as follows:

- FOOD AND BEVERAGES (breakfast cereal, milk, coffee, chicken, wine, full service meals, snacks)
- HOUSING (rent of primary residence, owners' equivalent rent, fuel oil, bedroom furniture)
- APPAREL (men's shirts and sweaters, women's dresses, jewelry)
- TRANSPORTATION (new vehicles, airline fares, gasoline, motor vehicle insurance)
- MEDICAL CARE (prescription drugs and medical supplies, physicians' services, eyeglasses and eye care, hospital services)
- RECREATION (televisions, toys, pets and pet products, sports equipment, admissions);
- EDUCATION AND COMMUNICATION (college tuition, postage, telephone services, computer software and accessories);
- OTHER GOODS AND SERVICES (tobacco and smoking products, haircuts and other personal services, funeral expenses).

Also included within these major groups are various government-charged user fees, such as water and sewerage charges, auto registration fees, and vehicle tolls. In addition, the CPI includes taxes (such as sales and excise taxes) that are directly associated with the prices of specific goods and services. However, the CPI excludes taxes (such as income and Social Security taxes) not directly associated with the purchase of consumer goods and services.

The CPI does not include investment items, such as stocks, bonds, real estate, and life insurance. (These items relate to savings and not to day-to-day consumption expenses.)

For each of the more than 200 item categories, using scientific statistical procedures, the Bureau has chosen samples of several hundred specific items within selected business establishments frequented by consumers to represent the thousands of varieties available in the marketplace. For example, in a given supermarket, the Bureau may choose a plastic bag of golden delicious apples, U.S. extra fancy grade, weighing 4.4 pounds to represent the Apples category.

[2] http://www.bls.gov/cpi/cpifaq.htm#Question7

Carol A. Johnson
City Clerk

Matthew Normand
Deputy City Clerk

CITY OF MANCHESTER

Office of the City Clerk

MEMORANDUM

TO: Board of Mayor and Aldermen

FROM: Matthew Normand
Deputy City Clerk

DATE: September 4, 2008

RE: Costs Associated with Special Election Concurrent with Municipal Primary in 2009.

The Chairman of the Board has requested that I provide the Board of Mayor and Aldermen with an estimate of costs associated with a Special Election run concurrent with the Municipal Primary on September 15, 2009. Since most of the costs would be realized by the office to conduct the regular Municipal Primary, I would estimate the additional costs to the City directly attributed to a Special Election on the same day to total approximately $6000.00 (including separate ballot, coding of the optical scanners, legal notices, etc).

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