

**COMMITTEE ON ACCOUNTS,
ENROLLMENT, & REVENUE ADMINISTRATION**

March 4, 1996

5:30 PM

Chairman Elise called the meeting to order.

The Clerk called the roll.

Present: Alderman Elise, Alderman Shea, Alderman Pariseau, Alderman Hirschmann

Messrs.: Kevin Clougherty, Tina Parson, Paul Bergeron, Randy Sherman, Rich Girard,
John Blair

Absent: Alderman Soucy

Chairman Elise addressed item 4 of the agenda:

Discussion of financial reporting.

Mr. Clougherty began by saying that this was a presentation of budget with the slides to show what the city needs to do concerning the financial situation. This will give you an idea of the whole picture of expenses and revenues. This is a basic presentation of the elements that comprise the cities financial well being. If you take a look at the red line this is your budget, the green line is your expenses, the beige color is your non-property tax revenues, and the blue columns represent valuation. As you can see in 1985, 1986 and 1987 the valuation of the city started at \$4.6 billion dollars. We lost a billion dollars because it dropped to less than \$3.6 billion. The audits are based on financial statement through '95. If valuation had stayed \$4.6 billion dollars we would have an extra \$25 million in taxes and \$20 million in abatements. In 1989, as things started to drop off the budgets, the expenses had to come back in line. During this period, the Board of Mayor and Aldermen decided to cut back the budgets and make changes during the fiscal year that were necessary to get things back in line. The trends are important on this and the valuation that is your pocketbook is going down and your non-property tax revenue which Tina is going to talk about is a million dollars less. Your income is continuing to drop. The monies that you have to provide services continue to shrink. This will show the importance of revenue policies and that's what we want to focus on tonight. You have to make sure you have a healthy source of revenue not only a healthy valuation. The information that we received from the Mayor's office will show that we will continue to drop another \$11 Million Dollars. This will drop up to \$3.611 Billion

and that would drop us to \$3.6 Billion. The light shaded area represents to the city \$25 Million worth of additional spending that we could have in the past 5 years. Not only did we lose \$25 million but we paid out in cash \$20 million for abatements. So the effect is a \$45 million dollar problem in terms of revenue and trying to keep up with services. Your income is decreasing.

Chairman Elise asked Mr. Clougherty if the valuation went down \$25 million?

Mr. Clougherty replied that if you had stayed at a level valuation that was 4.6 and your tax rate pattern had stayed the same you would not have had an additional \$25 million. You also had to pay out in cash in your overlay \$20 million. That is a \$45 million combined effect on your ability to provide services. You have to understand that you have suffered a significant impact in the last 5 years in valuation.

Mr. Hirschmann wanted a clarification that the \$25 million dollars that you are referring to is what the city would have had in additional spending ability and it's not a taxed based impact.

Mr. Clougherty answered that was correct if the rates had stayed the same.

Alderman Shea posed the question if it was just the assessment of properties that caused this?

Mr. Clougherty said that it was during that time. If you look back at the \$4.6 in 1989, that is before the NYNEX building and other developments we try to be careful when we talk about this. It's not that your tax base is shrinking you actual physical plant out there is expanding you have more commercial and residential improvement. The value on the base is going down because everyone did refunding and added garages.

Alderman Shea said that not everyone received abatements.

Mr. Clougherty replied that was the next slide. If you look at this top blue line, the tax rate composed of two pieces, residential and commercial. The top line is residential, here were you see the two blue columns building, and in 1990 that's when all your banks went under, your Public Service problems. So all of a sudden your valuation started dropping not only is the valuation dropping but there is a compounding factor. It used to be that residential and commercial were pretty stable in terms of the relationship of the rate. The values on your commercial properties dove in 1990, as that goes down and you want to maintain a level of service, somebody's house has be to go. So even if the tax rate stays the same the residential tax payer's bill went up because of the bubble in commercial. If you get the commercial back up it would have an effect on your residential tax bills. It's an important correlation that we have to crack and that people have to understand

because they play off one another. Even if you keep the tax rate the same if you do not correct this trend the individual residential tax payer's bill is going in the wrong direction. This is what Jay Taylor talked about economic development. You really have to correct this pattern, what we call the exploding cigar, that's what it really is to the residential tax payer. The taxpayer asks us if the tax rate is the same yet they are paying more, well they are right. They are picking up that difference and unless you do something to correct this the valuation and the expense changes. If you look at this chart, it's like a large equation, this would be your appropriations that are the budget you would drop. Then from that you subtract your non-property tax revenues, everything that is available from all the sources except for property taxes. Then you get a net number that you have to cover and you divide that by valuation. So even if you are controlling the numerator the denominators you still have a problem. When finance gives you the revenue and expense reports, you do not have the denominator. Ernst and Young have been telling the Board for the last few years with its reports that the assessors have to start providing you with information or disclosure. The amount you have is only half of the equation. We started getting some information this month but it's only a piece of what we need. We need more information, but we can disclose to you what the whole bottom line is.

Alderman Pariseau replied that he thought the issue of the assessors was settled last year. They just started giving you the information.

Mr. Clougherty said that the management letter they received to meet with Frank Biron, was probably about a couple of months ago. Frank from Lance and Greenwood came in and recommended to the Assessors to start putting the overlay accounts into separate years. They have just started to provide us with that information now. We need to get more but we are starting to get something. When you adopt a budget it's done in a public hearing or meeting and everyone receives a copy of the budget. This line, the expense line, every month we give you a financial statement that shows you what each department has spent. Committee on accounts would get all of the payroll information. You get every single transaction. In terms of this line this is your non-property tax revenue. When you look at your financial statement and you look at this report every single revenue listed by month, quarter or year disclosed goes back a few years. There is no vehicle for the blue column. Unlike when the Planning Board meet in public session they advertise their agenda, you know what actions they are taking, and they take an action. When there is a meeting of the Zoning Board it's on agenda, you know what actions are being taken and you can plot that. When the Finance Committee meets, it's listed out and you know all the actions but there is never any activity for the Board of Assessors and what action is being taken with respect to this. So we do not know what the number is. We are trying to correct that but until we get all the information you only have a piece of the disclosure.

Alderman Shea asked if we were the only ones who had this problem? Do other towns do it differently?

Mr. Clougherty said there are a few that do it the same way as we do. What happens is the way you treat the Assessors as a Board. We have no problem with them as Paul said sitting down with Mrs. Jones in her kitchen at her convenience and arguing out what they should have for an abatement. You also have to realize when you are sitting down with Mrs. Jones in her kitchen you are also sitting down in the board room with the Public Service Company. It should all be brought on agenda and voted on as a body. Then you could track what is happening because there is a public action. That's the piece that's missing right now. There are other towns that require the board to meet as a public body and list the abatements. Then you know all the actions taken during that year and you can do the same type of tracking. Right now the reporting does not have that information in there. Consequently, Ernst & Young and Lance & Greenwood, ask if there is no disclosure without the piece that's missing down here they have some confidence questions. They have no problem with our financial reporting because we put it out every month to investors, to us so we see all the expenses and the revenues. The process is what they are criticizing and it has no reflection on the individuals.

Alderman Hirschmann wanted to know if there was a cut off date that they needed to know so they could know set the rate?

Mr. Clougherty said that is what they were trying to work towards a cut off date. Then all you need to do is draw that line once. Each fiscal year, we start with new budgets and we continue to move forward. The you have your audited statements and everyone ties together. You have to tie into that same cycle.

Alderman Hirschmann asked if this was in place now?

Mr. Clougherty replied that is what they are trying to work towards, now. Randy maybe you could speak in regard to what we have.

Mr. Sherman added that what you have to understand when we do the tax rate setting they do draw the line, it's April 1. The take all the valuations as of April 1, the problem is they do not have all those numbers until September or October. Because of the new additions or fires, you are losing or adding property. Adjustments are always being made for these occurrences.

Alderman Hirschmann replied that they give you a preliminary number on April Fool's Day and then in September they come in and do the adjustments.

Mr. Sherman said that they can give you the number that is in the system any given day that is not a problem. Then they have to go in and do what they call there pick ups. They have to meet with the Building Commissioner to make sure they have all the garages added, or the extra bathrooms and whatever renovations put on that the Assessors are unaware.

Mr. Clougherty added that they draw the line in April, they submit the forms in September and the tax rate gets set in October. That's what you are looking at that cycle. If you do the same, you could make corrections on the abatements then you would have the full disclosure. The dates are not important as is the full disclosure.

Alderman Hirschmann wanted to ask a question. We set the midst of the budget July 1. In October, they gather the information needed to set the tax rate that would meet the budgetary concerns. We as a Board of Aldermen.....

Mr. Clougherty said what you do is adopt your budget in July based on your best estimates of what the valuations will be. What we just said is we thing now it's going to be 611. That is the best estimate right now and the trend is still declining. The budget based on the best estimate and your revenues and expenses. If the estimate were to drop off, we would come to the Board and say that they would have to make corrections to cut the expenditures because the valuations changed.

Alderman Hirschmann added that in other words you just did that recently, once the budget is set, the people that access properties, say that the tax rate is submitted to the state. The tax rate predicated upon the amount of money needed to meet the expenditures of all the departments.

Mr. Clougherty agreed and added that is was less the non property tax revenue. The net tax. So that gives you an overview of the relationship. You need to know where you are with the expenses, the revenues and the valuations. They all fit together. When you look at the expenses, you can see a history of were the city has been spending their money. As you can see, most of the expenditures spent in wages and benefits. Your capital and you debit stayed level. The increase has been primarily in wages and benefits.

Alderman Hirschmann asked what is other?

Mr. Sherman answered that would be the regular operating line for the departments. General expenses like there supplies and materials.

Mr. Clougherty continued by saying if you compared 1985 to 1995 just to look at 10 year history, to see were the biggest increase has been. In 1985, the percentage for wages was

53.9%. In 1995, the percentage was 55.5%. Benefits were 16.2% in 1985 compared to 1995 is up a point. Capital and other are down, so what has happened is that you had to take from your capital and other expenses to meet the increase in salaries and wages.

Mr. Girard asked if the numbers reflected the new increases given in 1996?

Mr. Clougherty said that was right. That would even make the percentages higher.

Alderman Pariseau asked that in 1995 the wages accounted for 46% of the budget.

Mr. Clougherty said no. It was \$46 million dollars.. It was a 65% increase. What we have done is look at the dollars and not the percentages. In terms of dollars the spending has increased in the past 10 years. Mainly in 1989 it leveled out, if you look at the city expenditures, it's primarily in education. The general fund like city clerk and finance start to go down as you see your highways growing a little. This is primarily been because of your safety years. That's a positive increase because if you went out to survey, most people will tell you that safety is important and schools. Clearly the board has put more money into schools and safety look at what safety was in 85 the yellow line versus where it is now. Look at school were it was In 1985 we were spending more on other than on education. The Board has been cutting and adjusting to be able to fund this growth in education and safety. They have had to make hard decisions, but the net effect and all the administrative support and activities are what the public wants. The Board has been generally responsive in that regard. You may argue that we like to have more instead of salaries, expenses and school books in this line, but at least it's in the right column.

Alderman Shea commented that he thought that one of the reasons for the increase was that the parochial school attendance had a large percentage of children attending. It does not anymore.

Mr. Clougherty agreed that some of the enrollment would change the numbers. If you look at this as bar chart instead of a pie chart, you can see that in 1985 that education represented 34% where in 1995 was 48%. Again you have to look at areas of growth, in safety it was 12.8% and now it's at 17.7%. If you look at these areas, most people want to see these areas growing. The administrative has cut from 37% to 21%. The other lines seem to remain constant. Highways and streets have gone down a little, but for the most part the expenditures are staying the same. Now we are going to go into revenues and why it is important that we have revenue policies. Tina will talk about that and how it all fits.

Ms. Parsons began by saying that at the last meeting one of the items we wanted to distribute was a draft revenue policy. The city does not appear to have a policy on how

to collect monies. A general policy needed to show where fees and charges should be. In that regard, the policy that you have details these items that are going to come up on the first few screens. The revenue handbook distributed gives you an idea of the revenues as we show them in our system.. It shows you where they derive from the state or a city determined revenue source. There is a five year history on the revenues in the handbook, as well.

Mr. Clougherty interjected asking if everyone had a chance to take a look at the handbook distributed at the last meeting? There is a lot of information in that handbook. If anyone calls you and asks you about a particular revenue all you have to do is turn to that page and it gives you a lot of detailed information about that particular revenue. There is a wealth of information and there are very few cities that have that, but you could do your own projections on that, it's a great tool for planning.

Ms. Parsons said that if they adopted the policy they brought, it would also be a policy used for cost and budgetary purposes. In other words, it would become the board's policy on certain items, whether or not they want to collect 100% of a particular service or have it totally or partially subsidized through property tax rate. When you drop the policy that becomes a mechanism to use or for individual city departments to use while they are budgeting for various revenue services other than the property tax rate.

Mr. Clougherty said that part of the problem we have had or that we have seen is it that the last few years that I have been hear. The board will try to adopt revenue policy in the passion of the moment. Invariably when that done, it's wrong. If you take a look at what is been done to plug the budget. The board adopted a policy of selling its buildings that do not make \$400,000, it did not make anything that year, and it ended up being a problem. In the heat of a budget you are trying to plug numbers and you are trying to select this or that. Then it invariably ends up with something that ends up with the city getting a black eye. We always look stupid going out and doing something like this and not having researched it. We irritate a group of citizens out there and the city does not look good. What we are proposing in this is that there are certain items that serve everybody. There are certain services that everyone in the city receives and those clearly are taxable. Those services rose in property taxes. There other items that relate to certain individuals and groups, and if you look through your revenue manual, we can go in and tell you what those are. We suggest that you look at the manual and study the revenues. Then you can decide which ones should be tax based or covered by 100% cost. If that is your policy then we can go in and give you a cost analysis on that particular service. This would give you what the cost would be for that service without overcharging or undercharging enough to recover that cost. Once the policy is set, you have some parameters for the departments to work on their budget. Your budget would be more accurate instead of just throwing in a number and it has no statistical basis.

Alderman Hirschmann asked what department exceeds revenue? 20%--10%???

Mr. Clougherty answered that we really do not know the answer on a lot of them because the costing is not done. It has not been the policy of the board to require the costing of the departments. This is what we are trying to shift around, do not tell us how much you want to raise in revenue just to plug in the figure over hear to make a budget deficit. What you need to tell us is what is the cost of the service

Alderman Shea asked if what your implying is that there should be certain types of services that should pay for themselves. Right now there being paid for by tax base or somehow or another someone comes up with an idea that we will cover this cost this year by doing this. Ultimately it does not work out and it all depends on the taxes from real estate.

Mr. Clougherty added that another way of looking at it Alderman is that you really don't know what your subsidizing for services. Because you don't know what all of the services cost individually to provide. Now that we have the expense and revenue reports we can make that shift so the departments have to do better costing as relation to policies for revenue then you have come a long way. You will not only look at the revenue but you will also be able to look at the expense side. Then you can take a business approach when looking at the reports.

Alderman Shea said in essence what your saying is that there is a segment of our community that benefit from certain services. Although everyone in the community pays, it does not necessarily mean that is probably the best way of doing it.

Mr. Clougherty said that because you are subsidizing those other services some of those things that you want to do for everybody cannot be done.

Chairman Elise asked that in terms of the fire inspection fee. If we had looked at it in the structure that you are talking about, we might have been able to come up with some figures that were reasonable.

Mr. Clougherty added that at least you would have known the cost. You would not have just been coming up with a figure to make the budget work. People would have been more palpable. If you went out and explained our policy, that this is what we are trying to achieve, then people would understand that. It's the last minute when you are trying to come up with a number that you single out one group and try to stick it to them. You have not taken a global approach to it. In the next few months, let us sit down because you faced with the same situation this budget. You can take a look at developing a policy so that when you get to that list you will have some point of reference. You will be in a more defensive position and you will be able to make more informed decisions. This is were Tina wants to start working with you. This is why the policy written the way it is so that we can get you to start focusing on some of these things.

Ms. Parsons continued by saying that the policy will provide a mechanism for an annual revenue of those same charges, fees and revenue sources. When you establish which services that need recovery through the tax rate, a percentage or a total cost figure for the services. Once we perform a cost of service study, you can look at an annual review and be able to tell exactly what a specific service cost to provide at any date and time. Then you can make a decision as to whether you want to recover 100% of that service. If it's too much for that particular group to bare then you would adopt a policy to subsidize a certain percentage of that with the tax rate. Once you have established the policy, you have a fee that is 30% of the tax rate and 70% covered under a fee. Then you can use something like the CPI index on an annual basis to keep it at that level. When you review the budget, if the cost of that service was to rise 5%, you can adjust that figure to either come from the tax base or fee from the service. The increases would be incremental a little at a time, opposing to one big increase.

Mr. Clougherty added in effect that if you go back to that first chart would be as that beige line that ran across the bottom here. It's kind of flat and you would actually start to see some growth and that along with the valuation gives you the ability to perform services without an increase to the tax payer. As you look at the cost side you may say we do not want to charge this fee. You have to have both sides you cannot just look at the expenses you have to see the side of the revenues.

Alderman Pariseau asked "How long would it take you to go through all these services that are being provided?" Now that would include city clerk's office, licensing, birth certificates, marriage license and all the other services. Plus planning and zoning.

Mr. Clougherty answered that all those items were in the handbook.

Alderman Pariseau replied that the zoning and planning board had been incorporated. We really do not know if zoning is self sufficient..

Mr. Clougherty said that they would have to look at is the big number items. I would think.

Ms. Parsons replied that someone would have to make a decision as to which department would be first. We propose that we do each department every four years. That's an assumption that we can get through the whole city in four years and then you cycle around and do it all over again. One of the items that the city departments are looking for is an upgraded computer system. Once you get those items in place the record collecting would be much simpler and less time consuming. Then you would only be focusing on the analytical side as opposed to the data collection. Right now you do not have a computer system that allows you to do that. Unfortunately,.....

Mr. Clougherty interjected saying the main reason for that is the payroll. Most of what you are doing is salaries and bodies. So if you do not have a good payroll system, in costing out that stuff, you do not have the information that you need. We were going to go through but you might not want to just focus on departments. You might want to focus on the big dollar revenues are on these 10. Let's focus on that first, so you have some flexibility to look at that.

Alderman Hirschmann asked if there was an enterprise that exceeded their revenue projections and we get that revenues back to the general fund or a portion, thereof? Let me explain more, I was reading the minutes of the Water Works and they came with their revenue projections for a year and they exceeded them by \$400,000. Can we bite into a piece of that revenue?

Mr. Clougherty said yes you could. For example, each year from the fund balance basis, the water department takes \$2.5 million dollars, and now they have retained earnings of \$25 million dollars. The city does not get one dime from the water department. The do not re-reimburse the city for my cost, for the clerk's cost, or Tom's cost and we do a lot of work for them.

Alderman Hirschmann asked why don't they?

Mr. Clougherty replied that it costs has never been done.

Alderman Pariseau said that the Airport reimburse the city for services in kind. Is that what they call it? Why doesn't the Water Work? They should be.

Mr. Clougherty said, again that's the reason you need to adopt a policy. Of course, they in turn would say that you have free water, but then you own the water.

Alderman Hirschmann asked if he agreed with the concept that the revenues could be.....

Mr. Clougherty said that was correct. You could cost out the items and then receive a payment from the Water Works. That type of payment is common in other municipalities and cities. You do not want to just go out and say we will do this tomorrow. You want to take a good look at it this and say what is our policy. If our policy stated to collect our cost from our enterprises then we would apply it uniformly to everything. In the past, the board would come in on June 28 and say the effective date is July 1. You need to inform everyone that our policy is this and it will take effect December 1. This gives time to simulate and do what is necessary to have a better transition. This is the best way to look at it, apart from the heat of the budget.

Alderman Pariseau added that you would set the policy pending on the timing. We could always make it effective the first of calendar year 1997.

Mr. Clougherty said that you should have a comprehensive and thoughtful approach to the revenues, before you set the policy. We are trying to set a cycle of activity, which in time should help you, that this committee would go through in reviewing.

Ms. Parsons continued by saying that the graphs that she would show will follow the introductory slides. Are strictly for the general fund and what we did for the historic data that we used to put these together. We moved everything into a fiscal year basis so you would have comparability because before it was a calendar year now it's July 1 through June 30. And again these are to help you set a public policy when you are looking at revenues versus other than property taxes. First few slides will show you the property versus the non-property tax revenues and the second sets' sources of revenue. Those slides will include things as interest, charges, licenses and fees and also to help you point out where the jurisdiction lies on the revenues that come into the city other than the property tax. For instance whether they are governed by state statute or by your commissions or by the Board itself.

Mr. Clougherty added that it was important because if a big portion of what you rely on for revenue is outside your jurisdiction. Although everything is okay today, there could be a change of policy in the federal, state or county government. You would then be in big trouble.

Ms. Parsons said that one of the first things that she wanted to point out is how the percentages change. As Kevin mentioned earlier the tax rate based on a couple of factors in your numerator and denominator. One of them is the appropriation that is the budget you adopt less the non-property tax revenue portion which is then divided by the assessed value. So, this is the current rate of what we have in the budget and the tax budget is in a simplistic way calculated per thousand.

Mr. Clougherty pointed out that this was your appropriation, this is the total of the resolution you adopted. This is what you expect to get from the non-profit tax revenues, this again is the \$3 billion 611 valuation number times' thousand and that's your break per thousand. He also explained that this was the non-profit tax revenue that the city would be receiving. What your trying is to get to a net number, what is this less this, and that is the amount that you are trying to spread out to your base. If this base is declining, then that's how it is going to start costing in that smaller base more, than if it's declining and shifting between commercial and residential. That's were the impact will be. As a simple equation, this is the way it works.

Ms. Parsons continued by saying that we looked at three possibilities or reducing the tax rate in a perfect world. We could increase the non-property tax revenues so that a piece of that pie would grow. You could increase the assessed valuation that would also cause the property tax to go down, or you could just cut your spending. We took each one of those numbers and factored it up by 1%. When we did that, the increase on the non-property tax revenue increased by 1% the rate goes down 12 cents. When we increased the assessed valuation by 1% point the rate went down 29 cents.

Alderman Pariseau wanted to know if each of these figures were independent of each other?

Ms. Parsons answered that's right.

Alderman Pariseau said okay, now then we are talking 41 cents.

Ms. Parsons said no, that's only if you did both. Then the third way would be to take the appropriation, the spending level, drop that a percentage point, and rate would go down 43 cents, based on the current assessed valuation.

Mr. Clougherty jumped in by saying that this gives you some idea on how all these fit together and what the impact each one has and you have to consider all of them.

Alderman Shea asked whether that was predicated on last years figures.

Mr. Clougherty replied yes.

Alderman Shea then asked if this would hold true on the 1996 budgets.

Mr. Blair answered first that it would stay very close because we when did it last year, the numbers are 1996.

Mr. Clougherty said that the figures are 1996.

Mr. Blair said that the last time they did the exercise, the numbers were very similar. Probably, it was a few pennies off on any one of those numbers.

Mr. Sherman said that your tax rate only went up a few percentage points and you saw your lines' stable.

Alderman Shea that the figures would probably go up this year.

Mr. Sherman added as Kevin mentioned earlier the department non tax revenue is down a million dollars . That's about 2.5% so before you even start talking about the budget your tax rate is already up to 25 cents. That's even before you even start. Evaluation is dropping, so it's not going to drop 1% but it's dropping so you are already up more than 25% because you are up some 43 cents. I mean 29 cents. The requests from the departments are up about \$18 million that is over 10%. So you are up \$4.50 on the bottom.

Alderman Shea asked why did the non-property drop so much?

Mr. Sherman replied that two of the main items were one we closed the land fill.. That was a large chunk of change. The other was the foundation money that the school receives. We received a windfall when we changed the fiscal year, and we have a one year bump up form about \$2.2 million to \$2.7 million. Now, it's going to drop back to \$2.2 million, so that's another \$.5 million that was in there.

Alderman Pariseau asked whether or not we could make adjustments to the elderly exemption rates or is that cast in concrete? I know this has nothing to do with this.

Mr. Clougherty answered that he thought we could.

Mr. Pariseau continued by saying that if you looked at the abate issue on the elderly exemption you are talking about \$70 million.

Mr. Sherman replied by saying that the elderly exemption cost you close to \$650,000 a year. You can go in and change those rates and potentially cut in half or you could eliminate it. As Tina was saying, what is your policy? What sort of impact would it be doing this?

Mr. Clougherty added that if you looked at it as a big picture the policy it's a lot easier that waiting the last minute.

Alderman Pariseau agreed that if you had a formula or a policy to follow. That's why I have submitted a letter to the Board tomorrow night relative to

Mr. Sherman said that in essence the board has made the policy that they would supplement the elderly tax bills. That is the policy that the state has given you. The board has the ability to change the policy if they want to do so.

Mr. Clougherty said that was what they were trying to do is to list out all of those things so you can look at them. I do not think you spend much time looking at that side of the budget.

Alderman Pariseau suggested that we request a presentation to the full board. I am sure that half of them there are as uninformed as we are.

Chairman Elise added probably during the budget process.

Mr. Clougherty said that what we need to know is do you want us to spend the time with you to develop a revenue policy? If you are not interested, its a lot of time wasted. If you do not buy into the concept of costing the services then some of the departments will resist. It's a little extra work on their part to try to get the information to see what the cost is for that service. If there is no support then it's not going to happen. The Board would have to say that we need to have that information in order to make informed decisions on the budget.

Alderman Pariseau asked whether he was looking for a motion to.....

Alderman Hirschmann motioned that a cost of services be done by every department of the city, right away.

Ms. Parsons said she would like to finish with the slides before a motion is presented. The next few slides will give you a good visual picture of the non-property revenues of each department. Then you can go back to the manuals provided and look at some of the specifics. The descriptions of the departments' revenues are in the hand book and you can take a better look at what the city is getting for non-property tax revenues.

Mr. Clougherty added that the next few slides would concentrate on this area. Is that right, Tina?

Ms. Parsons asked to address Alderman Shea's question that he had for Kevin concerning the percentage of how much of that was the property tax and how much was non-property tax? The property tax is about 65%. This is the fiscal year 1990 and the fiscal year 1995 comparison, and percentages actually increased.. It's pretty flat when you look at the five year comparison.

Mr. Clougherty added that was not healthy. It means that you are not making any progress. As long as keep pushing the same percentage of programs on property tax you are going against the tide.

Alderman Shea noted the difference on the slide. Is that 84?

Ms. Parsons answered yes.

Alderman Pariseau wanted to know that even with all the fees that we charge there still

Ms. Parsons replied that when first hired she reviewed the manual and noticed that the fees had not changed in over 5 years.. Since it was 38.3%, but it was a smaller base when you were looking at that, now you have a much larger appropriation base so that piece of the pie has shrunk.

Mr. Clougherty said that everyone was supplementing and as it goes up you cannot put these dollars into the services you want because there so targeted to supplementing these other specialized services. There is no problem providing them as long the costing and who are paying for it is rational.

Ms. Parsons continued by saying that the graph shows how the 1996 budget has not increased over 1995. Just a little presentation in terms of percentages but it gives you the 1984, 1990, 1995 and the 1996 budget all on one slide. So you can see where those numbers are in terms of the percentages.

Mr. Clougherty added that as that starts to keep going like this and the valuation starts shifting from commercial too residential. The individual residential tax payer's bill is what is affected.

Alderman Shea asked if it was strictly the fact that the cost would increase from 1984 to 1990 where there changes made from 38.3 to 29.4? The fees have remained the same

from 1990 to 1995 but from 1984 to 1990 were their certain things eliminated from other revenue and added to the tax base.

Mr. Sherman replied that the main thing that you lost since 1984 was federal revenue share. The city would get a lump sum revenue share and it would add into the non-property tax revenue and use it to balance the budget every year. The elimination brought on some other things to supplement, such as parking revenue, items like that. As Tina says you have not changed the fee since 1984 you are charging the same thing for certain fees that you were charging a dozen years ago.

Mr. Clougherty said that back those years the monies that came in helped to grow the salary line. Instead of putting into capital and expenses so that when it went away you did not have those raises that you were planning on having that money forever. That's what happened in Massachusetts, Connecticut and California, that are so reliant on the state. That's when our revenue sharing money comes down from Room & Meals if you do not use a percentage and you do not put it into operating expenses. Because that's going to happen to you again and on your watch you'll get crippled.

Ms. Parsons continued by saying that this state is not updated very often. What we have done is taken the 50 cities in 1993 and how they had reported their revenues and compared it to Manchester 1993-1994 fiscal year. As you can see that under Manchester, 71.1% property taxes subsidizing is what they get under other local, state, sales and income taxes that we do not have. This slide is really no surprise to anyone who lives in NH and knows that the property tax actually takes care of a lot of services.

Mr. Clougherty said that the 50 cities, I think it's the largest city in every state, that we are compared to so Manchester compares to Boston.

Mr. Sherman continued that what you have to keep in mind here is that you can look at their tax revenues just about 60% compared to our 71%. Look at the difference between federal and state. The state is getting 25.7% and we are getting 9.2% keep in mind that places like New York the moneys all goes to the state and then they turn around and pay for education. Of course they are getting a lot more money so that 25.7% is in essence taxes as well. It would be a state income tax that goes to the state and comes back as a state aid. Were again we do not have a state tax that turns around and comes back in.

Ms. Parsons explained the slide that the two pies represented sources of revenue. The total sum of the non-property tax revenue side and where they are coming from. So the largest piece of that pie for the fiscal year 1995 come from the licenses, permits and fees that we charge and back in 1990 the largest piece of the pie came from charges.

Chairman Elise posed the question what was the difference between a charge and a fee?

Ms. Parsons replied by saying that the largest piece of that charge was the tuition for schools.

Mr. Sherman replied that it was more for a service that you are paying to be able to do something. Tuition is in there, parking, those types of things. The fees are more like a user fee type basis, like auto registration etc.

Mr. Clougherty said that part of the problem is that you have so many different systems. The school is on a different system so that when you do your tuition payments you are probably not charging the town as much as we should to recover all of our cost. We do not have one system that is pulling all that information together. This would be another area where you would do a cost of service and do it as a uniform policy. Once you do that, you have to get everyone on one system and committed to costing. You would make sure that you recovered all Parks and Recreation costs that they provide the schools or the Police Department services provided to the school. Everything that I provide or Tom, etc.

Once you get all that information together that's a big number.

Mr. Sherman said that we try to charge the best on those things but again I hate to harp on the computer systems but that obviously is one of the big problems. Also, talking about the school tuition for years we did not put in the crossing guards. Nobody ever thought of putting the crossing guards into the tuition rate. It's part of the education process.

Chairman Elise said that was in the police budget.

Mr. Sherman said that's right, but no one ever thought of putting in, no one else thought of picking it up.

Mr. Clougherty agreed that unless someone knows what service they are providing. Tina can go through and help them cost in their own department. Paul can get all this information and put into that system. They eventually you get everything captured and you are getting back what you should. That gives you a leave and you are not supplementing as much. The moneys then can be used for other services.

Ms. Parsons continued and said that the grants and aids' figure there is primarily the monies that come back from the state for the schools. It's also the Business Profits Tax. It comes back the city portion and the school portion. The charge is the tuition.

Mr. Clougherty said that you can see where the pattern is not healthy. Sometimes we make these points to the board but until you can sit down and look at the stuff it's hard

for you to visualize what we are saying. That's why we feel it's so important if you look at all this stuff together and we can start talking about these things then we are going to get a better policy and better results.

Ms. Parson said that when we are looking at costing city services and looking at our non-property tax revenues. One of the items that we wanted to look at where is largest sources of revenue are coming from in that 35% that we get outside of the property taxes. This graph is basically to show you that out of the monies that are included in that non-property tax portion, 6 sources account for 66%. For example, if that's \$40 million, 66% of that only come from 6 places and the remainder of your revenue make up for 33%. So when you impact 1 of those 6 by a percentage point, it has a much greater ramification that if you do all the remainder 200 by that same percentage point.

Mr. Clougherty added that consequently in the budget you try to focus on those 6. If you look at all the others and take them along you may get other results and you have a healthier relationship.

Ms. Parsons said that except when you get to this graph, if you notice were those 6 are coming from they are primarily from the State. The Foundation Aid, Business Profits Tax, the New Hampshire Revenue Sharing is all state regulated. Auto registration is as well. We do not have a huge impact on what we are going to charge for auto registration because that's generated from a state level. One of the other elements of my position is to tract all the legislation that's going on at the State that we feel will impact especially , one of these 6.

Alderman Shea had a few points. The Room and Meals Tax, we were only getting 10% back now were going to get 35% back.

Mr. Sherman replied by saying that it's going to grow over time, over a 12 year period.

Alderman Shea said what it's supposed this year something like \$335,000, is that right? Were as before we were getting how much?

Mr. Clougherty replied by saying that's all new, before you would have received less than that. We always got something what \$465,000?

Mr. Sherman corrected by saying \$454,000.

Mr. Clougherty continued by saying that we received \$454,000 since 1970. Now we are going to get \$99,000 more that \$454,000, and will continue to increase each year over a 12 year period.

Alderman Shea asked if we get any money from the sweepstakes? Do we get a portion of that, is that pro-rated?

Mr. Sherman said that would be in the Foundation Aid amount.

Alderman Shea asked how much do we get exactly from that? Sweepstakes, do you break it down when you receive the amount from Foundation Aid?

Mr. Sherman replied that when they receive the amount from Foundation Aid it's not broken down from them.

Alderman Shea said that the intent of that was really for education but it's been kind of muddled up and

Ms. Parsons answered by saying that because the State pulls that into their general fund and the Foundation Aid is based on a complicated formula. Some communities get absolutely nothing back. The citizens and their communities are putting money into sweepstakes and not getting anything in return. That's based on the formula they have. There is a lot of discussion annually based on that Foundation Aid formula and exactly how much money is going to come back to communities. Because right now it's not fully funded.

Mr. Clougherty added that Tina, in tract of legislation last year, went up and was able to change the effective date on these bills. That would have been 1/2 million dollars we would have lost in this years budget if she hadn't changed the date. These are the type of things that we are trying to have her focus.

Chairman Elise responded that his department has always been right on top of things.

Mr. Clougherty added that he had good people.

Chairman Elise wanted to know if she could interject right here, Tina. Do have any estimate on how much longer the meeting will be?

Ms. Parsons replied not long.

Mr. Clougherty added that she was almost done.

Ms. Parsons a few more slides and they wanted to show a forecast that they do.

Chairman Elise said she had a 7 o'clock commitment, and she would leave senior Alderman Pariseau in charge.

Ms. Parsons continued her presentation by saying this is what she was pointing to earlier, the blue is represents on what is controlled at the State level. The yellow part is what the Board has control over or the commissions. When there proposing things at the State level enabling legislation to give you an opportunity to make a change or add an additional charge to something. It is important that we become involved in those issues that helps you have more control over what it is that we are getting back to the city. The largest percentages again controlled by the State RSA. The other colors represent what we classified in the manual as being derived from the commissions, finance department, interest monies from trusts, the Boards, the agencies, the School Board. Also that is the tuition number by contract that is some of the leases we have, the federal money and the court. . Again, reiterating what the revenue policy should do for us here is to give us a vehicle of collection and monitoring the cash flow into the city. It would also be a mechanism to predict cash flow and to keep the city on a financial self sufficiency so we do not get over reliant on State and Federal Funds. We would be more captains of our own ship that is important to investment community because the city has a very good bond rating. We all know we do not want to lose that and as a mechanism in the budgetary process to monitor the fees and charges. Now in light of the fact Chairman Elise has to wrap this up. I have also prepared a revenue forecast. We prepare this every month and try to keep tabs on what was budgeted for non-property tax revenue.

Chairman Elise asked whether this would be a constant item on the agenda.

Mr. Clougherty replied with that they felt this was important.

Chairman Elise asked if it would be appropriate now to make a motion so that you could start going forward on this policy.

Mr. Clougherty said that the policy ultimately would have to be adopted by the full Board. We would like you to read and challenge it so that when we get it up there you are comfortable with it.

Mr. Girard interrupted with a “point of order” for you and the committee to consider when it comes to this revenue policy. As you know, the board has gone through the process of restructuring and reformatting the committees. Part of this restructure was to alter the Parliamentary process so that you had a consisting flow of information between the Board and its’ committees. It would be appropriate to have the revenue policy that you would like to have to committee work on introduced at the Board. Then the whole Board is aware that there is a policy in the works and the committee is working on it. This would be consistent with the other procedures that the other committees have introduced at this point.

Mr. Clougherty said that was fine with them.

Mr. Sherman added that we could do that at this point.

Mr. Clougherty replied to answer Alderman Hirschmann's question in discussion with the city solicitor with the Mayor's office, the city clerk's office, the city solicitor's office, really the way the committees of the board work. The committees of the board have no specific authority in an open shell. The only things the committees can do by State Statute by parliamentary procedure and rule are things specifically referred by the board. Appropriately, the proper procedure would be, that if there is a revenue policy that needs discussion, as we know there is. The finance office would introduce it at the board level and has it referred to the committee. The committee then can act on the matter specifically and then make its recommendations back to the board.

Mr. Sherman added that what ends up happening is that committees would go off and sort of do their own thing. Then what has happened in the past years, they would surprise members on the board with a report that no one knew were it came from and this counter productive.

Mr. Clougherty said that it's fine with us because we can do that, if you would like we will introduce that and have it referred..

Chairman Elise agreed and said that was a good idea.

Alderman Hirschmann said that he had a question. If everyone sits on the committee with finance why can't we ? I am not sure how it works, but why can't the finance committee or the full board work on this. I do not understand.

Mr. Sherman said that if you wanted that to happen, Alderman, it could happen that way. The whole board could go through this and the finance committee be the vehicle that develops the policy. However, in working with the solicitor's office and the clerk's office, the mayor thought it would be best to have a working group of 5 Alderman to deal with these specific issues. Because of the number of Alderman, frankly, it's more conducive to get the work done in a timely manner than that way You are not tying up the entire board for however long it takes to hash out some of these things. There is a lot of back and forth and a lot of specifics. You could have this done by finance but this is one of the reasons that this committee was created to handle issues like this.

Mr. Clougherty asked whether or now we could go through the revenue forecast real fast so you know what is happening here.

Chairman Elise replied yes. So we do not need a motion for you to submit the policy to the full Board and then have it referred to us.

Mr. Clougherty said no, that they would let them know.....

Mr. Sherman replied that they would do the same with the investment policy.

Mr. Clougherty added like how we make investments in the bank and things like that. We will put those both on for the next meeting. You can refer them to the committee and we will start working on it. Tina, do you want to walk us through the revenue forecast?

Mr. Parsons continued by saying that in essence it's to take the revenue sources for non-property tax and see how well we are doing against what was budgeted for the fiscal year 1996. Now keep in mind that when you go to the last page and you are looking at a \$74,000 that's a positive number. There are a lot of assumptions made at this point, because it's very early it's a seven month amount recognized, however, police department, fire department, there are still tuition revenues out there. There are a lot of outstanding revenues that have not been billed yet. Now a couple of items I would like to bring to your attention what Randy and Kevin have both said, if you look at item revenue 205 Mechanical Devices on page 1. They were approved for \$550,000, however, there were assumptions made on that in terms of licensing all the machines in the city. There is a \$300,000 deficit in that revenue source that we do not expect to collect. That will stay there. Page 2 item #260 for Transfer Station again an assumption made at budgeting time was that we would have a transfer station and would be charging these fees to other communities. We are not going to collect that \$68,800 because we do not have a transfer station. Those fees will not be collected. On page 3 at the top #291 a Commercial Inspection Fee, again that was repealed. It was in effect budget time and it was repealed in September, so therefore we are not going to collect \$184,478. That is the fire fee. If we go to page 5 #698 towards the bottom, it's called Excess Receipts and it's budgeted for \$406,597. Again that's a figure were not quite sure where it came from to be honest with you. It represents cities' tax lien property and the excess they would hope to collect at the tax lien sale. Again you will have a deficit of about \$312,000. So in total if we take all of those together you have a total of \$877,112 revenue that you are not going to collect. When I took that on the percentage of the total that was budgeted it's 2.1%. If all my assumptions come in the revenue will be off by 2.1%.

Mr. Clougherty added that was only 4 revenue sources. That's the type of problem that we have here. All 4 of those were thrown in the last month of the budget process. . If not the last night of the budget process.

Alderman Pariseau asked how many machines had we licensed?

Mr. Sherman answered about 457.

Alderman Pariseau asked at \$500 a piece?

Mr. Sherman replied again we were thinking there would be 1000 machines.

Alderman Pariseau asked why we couldn't go \$1000 per machine?

Mr. Sherman added that the year before we only had 357 license, our office thought that 400 was a reasonable projection. I do not doubt that there is not a thousand out there, but most of them are behind closed doors.

Alderman Pariseau said give me a list of your clubs and I'll let you know.

Mr. Sherman said that we do this every month. All this projection comes from the Revenue Handbook that you have.

Mr. Clougherty asked to look at what this chart of columns shows. The first column is the current budget, this is your actual 7 months. Then we have projections from your revenue handbook. Then you have a 12 month estimated and then with what we are going to end up with if all the other assumptions come in. Again a lot of that is because of what Joan's been doing with investments. The rates are starting to fall off and were not going to have them next year.

Alderman Shea asked whether the investments were going down.

Mr. Clougherty said that the investment rates is dropping because federal is making some decisions....

Ms. Parsons said if you look at #661 the amount is \$566,000 from what we budgeted.

Alderman Pariseau asked if it was \$566,000 budgeted.

Mr. Clougherty answered no it was over what we had budgeted.

Mr. Sherman said you budgeted \$1,450,000.

Mr. Clougherty continued by saying so of the \$800,000 short ball, she's made up more than half of it. Again we cannot guarantee that we will have that next year. The rates are going against us.

Chairman Elise asked that at our next meeting at the end of the month will you have the printouts.

Mr. Clougherty said that what they were trying to do is trying to get an overhead done. This way everyone can follow the report with him as he goes along.

Chairman Elise commented that this presentation was excellent and very informative. I can see why Alderman Pariseau would like to see the whole Board have this presentation, it maybe that we should suggest that it be given at a time when other Alderman could meet.

Mr. Clougherty said that they appreciated that they took the time to listen. Our main focus is to keep this committee informed of what is going on .

Chairman Elise and all the Alderman and Mssrs agreed that the presentation was informative.

Mr. Clougherty asked if there was any question.

Alderman Hirschmann had a question, since he's in the process of recycling. Line #679 we made \$60.00 and projecting \$30,000.

Ms. Parsons answered that the \$30,000 was from the paper recycling and we get those quarterly, so what your seeing shows that we have not received the first check. This is only through January and it did not start till December.

There being no further business to come before the Committee, on motion of Alderman Shea, duly seconded by Alderman Hirschmann, it was voted to adjourn.

A True Record. Attest.

Clerk of Committee