

**COMMITTEE ON ACCOUNTS, ENROLLMENT
AND REVENUE ADMINISTRATION
(Continuation of October 24, 2000 Meeting)**

November 1, 2000

4:00 PM

Chairman Hirschmann called the meeting back to order.

The Clerk called the roll.

Present: Aldermen Hirschmann, Levasseur, Pinard, Thibault, Lopez

Messrs: S. Tellier, P. Porter, K. Clougherty, R. Sherman

Chairman Hirschmann addressed Item 3 of the agenda:

Review of reports by the Board of Assessors.

Chairman Hirschmann asked Mr. Tellier to start with number one and go through the report with the Committee.

Mr. Tellier stated I would like to thank the Committee for their forbearance. The last time we reported to this Committee, we were not able to give a hard and fast number. We knew the range we were in and we reflect that accurately in this report, but we had a couple of reconciliation issues with HTE so thank you again for that forbearance. On the tax base summary, what is reported here at the bottom is the gross value. \$3,896,678,500. From that balance must be deducted the exemptions and the non-taxables and all of that. If you go to a page that is itemized as F, there is a figure that is circled and that shows the gross and next to it you will see total valuation. The same numbers reflected there, the \$3.896 billion and if you follow across the columns there is the posted exemptions and then it is shown what is used. In other words, if an elderly person qualifies for a \$90,000 exemption but their home is only assessed at \$80,000, they only need \$80,000 of that \$90,000 exemption. That is what this reflects, but the bottom line is that at \$3.896 billion, approximately \$65 million is deducted from that for the net assessed value. In the overlay summary there hasn't been an awful lot of activity in that as well. That is the second page on that report. On the third page, is the valuation summary and all that does is it identifies the entire assessment of those properties that are under appeal and the adjustments that were made. As you can see, there is not a lot of activity in that as well. Attached also to this report are the tax appeals, local tax appeals. September 1, just this September 1, ended the Board of Tax and Land Appeals period. We have three cases that were remanded

or filed at the Board of Tax and Land Appeals for the 1999 tax year. All of these other cases that are shaded out have been processed. Also attached to this report is the payment in lieu of taxes that is pretty standard and the final page are the exemptions.

Alderman Lopez stated can we go to Page C. Can you tell me a little bit about Hackett Hill Road?

Mr. Tellier replied Manchester Integrated Health, that type of property is with the Medicare/Medicaid issue, the government pay-offs and all of that that is a class of property that is struggling and has a very difficult time at this time. No one is building new ones. The State of New Hampshire isn't granting additional beds. It is really an extremely difficult class of property. They do have an appeal here that we are handling and there were a couple of others in the City as well.

Alderman Lopez asked on the last page, F, that is \$3.831 billion. That is below the \$3.849 billion that we put on the operating budget so that puts us about \$17 or \$18 million below?

Mr. Tellier answered that is correct, below the number that was used in the adopted fiscal year 2001 budget. That is correct.

Alderman Lopez asked what do you think that calculates to.

Mr. Tellier answered well we reported last time somewhere between \$550,000 and \$600,000 but for every \$10 million we are still talking about 8 cents on the rate.

Alderman Thibault stated I look at Page E where some of these people are paying in lieu of taxes. Does that mean, Steve, that we are getting this money? We are getting this money right? In other words, Southern NH Planning Commission, they are paying \$6,860 in lieu of taxes?

Mr. Tellier replied that is right. As you may know, Alderman, the in lieu of taxes is assessed using the municipal portion of the rate. We have four portions or four entities that comprise the entire rate. One is the county portion, the municipal portion, the local school portion and the State school education tax. They pay the municipal portion.

Chairman Hirschmann asked on Page A which starts the appeals, these are ones that are settled.

Mr. Tellier answered that is correct. The shaded ones have been settled.

Chairman Hirschmann asked those are settled by your office.

Mr. Tellier answered that is correct.

Chairman Hirschmann stated there is one on here I want to ask you a question about. 300 Franklin Street. The value went from \$3,499,500 to \$1.8 million. That is almost a 50% adjustment.

Mr. Tellier replied the reality of that particular property, Alderman, is that they were way over assessed since the 1991 revaluation. The reason they never appealed up to this date is purely their own and up to conjecture, however, the appraisal that we received was very much lower than what we were able to retain. The Board of Assessors, Paul Porter and myself worked quite a bit on this and they brought up an appraisal plus on the equity leg, that being they compared this property to other Class A properties and banks. They were clearly probably 170% of other equitable properties. They had a very, very good case. We still have a very healthy assessment. Why they paid the bill and didn't file an appeal sooner than this is anybody's guess, but it was the right thing to do. They are still assessed, quite frankly, higher than a lot of other equitable properties, but this is something they agreed.

Chairman Hirschmann asked is that the black marble bank building.

Mr. Tellier answered that is right. It is about 28 years old with no major refurbishment. Assessor Porter did go all the way through that building. Someone from our office did go through that entire building. They had a very good case and we were very happy that the City was able to keep this type of assessment on it understanding of course that we are currently going through a revaluation, but we are using 1991 benchmarks from the last revaluation. We are very happy that the City did opt to go through a revaluation and we are very much looking forward to those results.

Chairman Hirschmann asked will this particularly property be reevaluated.

Mr. Tellier answered absolutely. It is a whole clean slate as of the new values that will be submitted to the Board for review in the early summer and then accepted by the Board of Assessors and with the blessing of the Department of Revenue Administration we are all set. We will be using those new values in September of 2001.

Chairman Hirschmann stated I thought there was a point when this Committee asked your Board of Assessors if there was going to be an adjustment on a

property of over \$1 million we were going to get notified. That is like a major thing.

Mr. Tellier replied I don't remember that, Alderman, but we could certainly make a point of that and I will check the minutes to make sure. This was reported on a previous quarterly report as well.

Chairman Hirschmann stated in previous years there were pages and pages and pages and now there are only three pages but that one there stuck out. Property is going this way. It is not that there is a vacancy over there or tenant situation. Somehow that building got over assessed and it is not really...can they come back for any previous years?

Mr. Tellier replied no.

Chairman Hirschmann stated that is the good news isn't it.

Mr. Tellier answered yes.

Alderman Lopez stated since 1991 they have paid the assessed value right and now they are down. There is no time limit where they can appeal this?

Mr. Tellier replied no, Alderman, by statute they have a specific time period in which they have to file for an appeal. A Senate bill changed that. They have until the following March 1 after the bills are posted. In other words, this next billing period when everyone receives their bill that are due on or about December 1 they have until March 1, 2001 to file an appeal for the 2000 tax year.

Alderman Lopez asked and if they don't.

Mr. Tellier answered then they are out of the box.

Mr. Porter stated every year is a new year.

Alderman Lopez asked does that apply to homeowners too.

Mr. Porter answered everybody.

Alderman Thibault stated I have had several calls about people who own homes, single or double family, and are very concerned about the revaluation and whether it is going to go way up. I told them I don't think so. I got the impression that you people were looking mostly at industrial and maybe commercial properties more than you were looking at household or double household if you will. Can you give

me some idea here, Steve, as to where this might be going? What is the chance of a single or double family homeowner's valuation going up significantly?

Mr. Tellier replied I guess I would ask you to define what significant is. We are using values that were set in 1991. The fact is that the values are up in 2000 and 2001 so people are going to see an increase in their valuation. However, if you recall in late 1991 the FDIC came in and the economy deteriorated and there was a shift in the burden from commercial and industrial properties to the residential. If the economy holds as it is, we don't see that shift. Also, there is a significant amount of properties out there that have increased in value as well. The residential homes did not depreciate as quickly as other types of properties after the economy deteriorated so they endured somewhat of a burden if you will. We don't see that happening. We hope that does not occur, but as far a significant percentage, I think it is clear to everyone on the street that everyone's values have increased in almost every class of property. I think it is reasonably safe to say that it is across the board whether it is multi-family homes, commercial, industrial, single family homes, condominiums but don't forget now that the tax rate will drop because the City's value increases. If the budget does not increase significantly, there will be a resulting drop in the tax rate.

Chairman Hirschmann stated with regard to the new assessments, when they do come out will your Board be...because it is such fresh material will you be rigid on the appeals.

Mr. Tellier replied the appeals will be handled the first time around by the revaluation company. That is part of the contract and I am sure that they will defend the values that are appropriate and those that have additional information that they may not have encountered in the first run, they will take another look at it.

Alderman Lopez stated you said the company would do it and then if there is disagreement the Board of Assessors would be the appeal right.

Mr. Tellier replied no.

Alderman Lopez asked why not.

Mr. Tellier answered I am sure they will keep us posted but they are contracted to defend those appeals and they will make recommendations to us.

Alderman Lopez stated right and if they say no on the appeal...

Mr. Tellier interjected the way the contract reads is if we deny...

Alderman Lopez interjected let me understand it my way. If they say no on the appeal and I have one year to appeal according to what Paul Porter just said, then the Board of Assessors can hear that appeal.

Mr. Tellier replied no. At that point you would go to the Board of Tax and Land Appeals.

Alderman Lopez asked why.

Mr. Tellier answered the way the contract is written, they defend the values. If we decide to change that format then they are absolved of anything on that particular account. Now if they say no and we agree with them and they decide to go to the Board of Tax and Land Appeals, the onness would be on them to defend that value. Their resources would be required to defend that value. If we come in and we change that value without their recommendation, then we are at risk for any other level of appeal. In other words, if you have a property that you appeal and you go to the CLT or the company and you appeal that value and they say no, should you decide to go to the next level of appeal then it is incumbent on the revaluation firm to further defend that appeal with their resources.

Alderman Lopez stated but once we accept it as a City, the contract of the valuation and they did all the appeal process, from what Paul Porter just said you can do this every year so the following year I can come to the Board of Assessors and appeal it.

Mr. Tellier asked you are talking about the next year.

Alderman Lopez answered the next year or the following year.

Mr. Tellier replied that is different than what you said. I was under the understanding that you were talking about the 2001 assessment.

Alderman Lopez stated the 2001 contract says okay I appeal their decision and they say no. The Board of Assessors...I cannot appeal to the Board of Assessors once we accept that?

Mr. Tellier replied your appeal is to the local board, however, they are going to be reviewing all of those appeals and making recommendations. If it is their recommendation that no adjustment be made, we have the ability to say that we feel that there should be an adjustment and we have that ability. However, if we support their opinion that no adjustment be made, then if you as a taxpayer decide

to further your appeal at the Board of Tax and Land Appeals, it is incumbent on the revaluation firm to do the defense.

Alderman Lopez stated I understand that part but if I do appeal to the Board of Assessors at that point and the Board of Assessors decides that the valuation is higher than what they think, they can lower it.

Mr. Tellier replied absolutely.

Alderman Lopez stated that is the point I wanted to make.

Mr. Porter stated what I wanted to add is I think it is important...we are going to be part of this process. Just because the contract says that they will represent us, that means that if we so chose. We have always tried...what we have done is we are overseeing the revaluation, but we are also keeping at arm's length because we know that the citizens of Manchester, once everything is said and done, are going to rely on the local Board of Assessors to deal with things. The contract, although it specifies they will handle the appeals, that doesn't mean that we aren't going to be involved in the appeal process. They are appealing to the local Board of Assessors. Whoever settles that appeal is not relevant as long as it does get settled within reason, but we will be part of the process. In the contract, if we somehow were to end up raising someone's assessment then the company would be off the hook to defend it, however, let's say we had a property assessed at \$140,000 and the property owner felt it should be \$120,000, let's assume that we lowered it to \$130,000, they would still be responsible if that taxpayer chose to take it to the Board of Tax & Land Appeals and Superior Court to defend the assessment, but we will be involved every step of the way because we do recognize that the local taxpayers rely on the local Board of Assessors to settle their aggrieved appeals.

Chairman Hirschmann stated just for my own knowledge, the tax base number that you ended up with was better than you had thought probably even last week. How much more than the Mayor's number was it?

Mr. Tellier replied it was below the Mayor's number. It is about \$4 million less.

Chairman Hirschmann asked so we are about \$17 million short overall.

Mr. Tellier answered that is correct.

Chairman Hirschmann stated thank you very much for your report.

On motion of Alderman Thibault, duly seconded by Alderman Pinard, it was voted to accept the report.

Chairman Hirschmann asked Kevin Clougherty to come to a microphone.

Chairman Hirschmann stated from our recessed meeting the only open piece that I remembered and I didn't even invite Finance but when Randy was speaking we were discussing the discrepancy between the fund balance and what the computer says is a fund balance.

Mr. Clougherty replied we have been researching that and it is about \$1.6 million differential. I think we have come to a point where we think that now that we have had some access to some reports that it looks like we have most of that identified but we are still working on it and making progress there.

Chairman Hirschmann asked when you say it is identified, is it still a fund balance or is that money absorbed somewhere.

Mr. Clougherty answered that would have to come off the \$4.2 million that you have. It would still be a deduction.

Chairman Hirschmann stated so like Randy said it might be safe to say that the \$1.6 million is accounted for somewhere.

Mr. Clougherty answered I think we are starting to feel more comfortable with that.

Chairman Hirschmann asked what is our fund balance number down to.

Mr. Clougherty answered we really don't know. You would have to take and reduce the \$1.6 million off of the \$4.2 million, but then we still haven't got a balance sheet from the School District. As soon as we have that, we can tell you what the fund balance for the City will be. We are working with them to try and get that done.

Chairman Hirschmann stated can I call a time out there because they are their own entity now and they would carry their own deficits wouldn't they. I mean if there is a deficit on their side don't they carry a deficit and pay it back?

Mr. Clougherty replied they are separate to an extent, Alderman. There are issues that have to be resolved in order for us to close the City's books. For example, a determination on the \$1.4 million in benefits has to be made and until we have a balance sheet we don't know what their bottom line is. Are you going to give them \$1.4 million or are you going to give them \$400,000 or are you going to give them \$2 million? What is that number? Until you get a balance sheet, you don't

know. The other thing is that they have said there are some issues that they would like to get cleared up with respect to some of the reserves. In other words, they feel that maybe there is something they can glean out of the health reserves or something like that, which is fine. We would be happy to sit down with them just as they claimed with the debt. They said there was a big issue with the debt and we opened up the books and there is no issue with the debt. It is the same thing here. We will be happy to show them all of the books and work with them and get it resolved. If that is what is holding them up then we will do it in the next couple of days. It shouldn't be a big deal.

Chairman Hirschmann asked are you anticipating collecting...

Mr. Clougherty interjected but how that goes...again say it did come down and there was something that would have to go over to them then that would have an impact on your side of fund balance. So, we have to make sure that we get all of these things straightened out and rectified once and for all so that we can tell the Board what their fund balance is.

Chairman Hirschmann stated I am going to back off from fund balance for a minute. I am going to go back to the receivables that the School owes us. Are you still anticipating collecting any money for the City?

Mr. Clougherty replied based on what they have told us, we anticipate that we will be paid, but that will be a revenue for the current year because we have gone beyond the 60 day rule for gap purposes. Yes, we anticipate that we will get something, but those will remain as receivables for the previous year. I don't expect the auditors are going to bend on that.

Chairman Hirschmann stated I am trying to chose my words carefully because I have newspaper clippings on a wall in my room with Norman Tanguay saying that by August 15 the City will be paid and by September 15 and October 15 and I am sure November 15 is going to come and go too.

Mr. Clougherty replied well we hope not. I mean I really think we are at a point where we have to get this resolved. I don't think it is in the best interest of the City or the School to go beyond the tax rate setting and not have this resolved. It has to be resolved by next week or so and we will work with them on that and hopefully we can come in and give the Board a real good feeling for what its fund balance is. I don't want to come in and tell you people that you can apply \$1 million of fund balance if you don't have it. Conversely, if you have more than \$1 million I want to tell you that and I don't want to feel that I am putting you at jeopardy because I don't have a number or feel comfortable with a number that

might pop up later on off of the school's balance sheet. I really feel that is important and that is what we are working on.

Alderman Levasseur stated I heard you mention the \$1.4 million that we had set aside for last year. We had discussed amongst ourselves for days and weeks and months whether this was in benefits or wasn't in benefits and now you are suggesting, I heard you say it is a benefits question. Have you come to that conclusion that this is a benefits situation?

Mr. Clougherty replied no because we haven't seen that. We have reconciled what the City has paid and what they have paid for benefits. We have that. I think when we are talking about the \$1.4 million it is not so much are you going to give them the \$1.4 million as it may or may not relate to benefits as it does to their bottom line. The information that they have compiled so far for tax rate setting includes the \$1.4 million. So, we want to make sure that we understand how that flows through their statement.

Alderman Levasseur stated now we were talking about a tax rate adjustment that we are supposed to do this evening. It really is kind of ridiculous. If they are short \$2 million or \$1.4 million or whatever, we are responsible on this side to cover for that no matter what.

Mr. Clougherty replied right. In part it is going to hit you one way or the other. What we have to do is make sure that we understand exactly what...if they have some questions and they say they can't do their balance sheet because there is some question about something else, come and talk to us. Let's sit down this week and get it resolved.

Alderman Levasseur stated help me with the logic of all of this because we are going to go through this all over again. Why are they having their own separate people doing their own separate stuff when we are going to be responsible for it on the City side? Can somebody explain that? Is that some kind of a question that keeps getting missed?

Mr. Clougherty replied it is not unlike an enterprise. They are a separate operation and they have elected officials who are operationally in charge of the School District but they fold into a bigger entity, which is the City of Manchester.

Alderman Levasseur responded that is fine. Water Works is a separate entity. If they came in with \$1 million loss, we would have to cover that on our side also?

Mr. Clougherty replied we wouldn't cover that now because they have retained earnings.

Alderman Levasseur asked but we would be responsible for that also. I don't have a problem with being responsible for it, what I have a problem with is the shuffling game that keeps going on so that they don't have to take blame for whatever their shortfalls are and then shoving it down our throat. That is the problem I have with this. We are responsible for this deficit that the have? Isn't that true?

Mr. Clougherty answered the School District is a little bit different from your enterprises. Although it has a separate entity status of sorts we have to still take into consideration, at least in the years during this transition as we are trying to phase them out onto their own, what their stand alone position is. Until we take them out entirely, they still maintain that they have some resources on the City side in the form of these reserves. So, let's answer that question and get it done once and for all and then they will be on their own. It is a transition period that we are going through with the Board right now and in another year that should be behind us because just as with the debt, once that is reconciled, the debt is what it is so that is one piece behind us. Let's get these others done and instead of trying to guess at what your fund balance is for tax rate setting we really need to know what it is to be prudent.

Alderman Levasseur asked so what is the hold up on that. Is it the City side that is holding it up saying no we are not responsible for that or is it the School side? We have been going over this now for a long time.

Mr. Clougherty answered I think the City has been asking for the balance sheet. We just heard today that they think that one of the reasons is that they want to look at these other funds and that is great. What we said to them was let's set up a meeting. We will get our people in and fix it. If that is what you are saying your hang up is, then let us know and we will do that and that shouldn't take long to do because their auditors have already signed off on those fund balances in previous years so it shouldn't be a big mystery.

Alderman Lopez stated the only question I have is that two special meetings have been cancelled. I don't know when we are going to get a third one. Next week probably, but something is wrong someplace and I agree with Alderman Levasseur. This is ridiculous. Totally ridiculous.

Alderman Levasseur stated I have changed my schedule around for two weeks on a Wednesday and we are not supposed to have any full Board meetings until November 21 because we have all of these things to do and the election is coming up and everybody is busy and now we are going to be doing this again. Now, I have given up two Wednesdays for this.

Alderman Lopez asked what is as of today when you are going to get the numbers. Otherwise, November is gone.

Mr. Clougherty answered as of today, the Department of Revenue Administration has advised the City that until they get a balance sheet from the School District, they will not set a tax rate. So now it is no longer just the City and the Finance Officer asking for it, the State is saying you have to do this so now I think there is more of an incentive for the School District to prepare a balance sheet. What we have said is if there is anything that you need from us in order to be able to get this done in the next week or two...as soon as we can. If we can do it tomorrow, let's do it. Give me a call. The Mayor sent a letter to the School District saying let's set up a meeting and get this thing done. You are right. As frustrating as it is for you, it is just as frustrating for me and my staff.

Alderman Lopez stated sure but I think in the long run it's going to hurt everybody if we don't get it done.

Mr. Clougherty stated the worst thing in my mind Alderman...

Alderman Lopez interjected that's my next question. Financially, if you don't get it done by say the end of the year what happens.

Mr. Clougherty stated I think you have to get the tax rate set because you have to have that. I'm sure Joan and Paul will support me here. You've got to get those bills out to get that revenue in. You've got to get that moving. So in the next two weeks this has...

Alderman Lopez interjected that's the financial question. Let's say that does not happen, because we've had so much problems. Where does that rely on sending out the bills and on what we are going to do and how we are going to operate?

Mr. Clougherty stated I think you have to have this in order to get your tax rate set. It has to be done.

Alderman Lopez stated you keep saying we have to have, I'm just saying whose going to make sure that it is done.

Mr. Clougherty stated I think now that the State has intervened I think it will get done. I think the School District now understands that they have to do that, and as we've said right along we are willing to provide whatever information. So I want to operate on the basis that this will be done in the next two weeks. It has to be done.

Mr. Clougherty stated the reason for that is I don't think it's prudent to set the tax rate without a good feel for the Board of Aldermen to know where their fund balance is. I think that is critical and that is what we have said right along.

Alderman Thibault stated, Kevin, I'm sure that you are probably as concerned about this as we are. Do you feel comfortable with what has happened in the last few weeks as far as you trying to settle this? Do you feel comfortable that there is progress being made in that area? I would like an honest opinion. Do you feel, in your opinion, and I am looking at you as the Finance Officer of the City...do you feel that the School is coming along with you?

Mr. Clougherty responded to be honest, Alderman, I think until this afternoon when the DRA intervened, I think the position of the School was why don't you guys go ahead and set the tax rate with the best information we have given to you to date and that just isn't satisfactory to me. I don't think it is satisfactory to the State and I am glad that they have intervened and I think now we will get something done.

Alderman Thibault asked so you still think that the School Department to some extent has still got some problems that you don't understand, or you don't agree with.

Mr. Clougherty said yes, right and I wouldn't say it is problems. If they have some issues about some of these reserves that they want to investigate ... tell me that last week or a month ago, great, we'll set it up. Now I think we'll see some interest in getting that done and I'll assure the Board that my staff, and our auditors and whoever they need to talk to we'll do whatever it takes to get this done, and if we can get it done in three days, great. If we can get it done in a week terrific, but it can't go longer than I think two weeks.

Alderman Thibault stated so if I hear you right now we are saying that within 15 days we are going to hear exactly where this is at, through the State or through the City or whatever.

Mr. Clougherty replied that is where we hope to be Alderman. That is what we are pushing for and I think we have been consistent on that.

Alderman Levasseur stated in anticipation of the actual setting of the tax rate, if we didn't get the numbers from the school, feeling that the number is \$1.6 million instead of \$1.4 million, if we didn't have the problem with the valuation being much lower than we had anticipated would the fund balances that we have seen because of our projected revenues compared to last year's numbers...do you think

that we could still just set the tax rate at what we had anticipated for and just pass on the bill at an even balance as it is because of our projected revenues or do you feel uncomfortable doing that.

Mr. Clougherty replied no. What we would say to the Board is here is what you thought you were...when you adopted the budget, here is where you thought you were. Since then, the county tax has gone up. You have seen some things with valuation, and you have seen some things with school, and if you wanted to offset those with fund balance, as you know right along I've been kind of conservative in my estimate of fund balance for the reason of the uncertainties I have with the School District. If we can get those put to rest, then I think we can come in and say here is where you are, but until I get that I'm reluctant to offer.

Alderman Levasseur responded so you are reluctant because of the school issue, but let's say the school issue came in at \$1.4 million or \$1.6 million. Do you think there is enough in the fund balance to cover the 8 cents on the valuation that we are short? We are short \$17 million in our valuation. Do we have enough in our fund balance to be able to pass on a tax bill without an increase because of our...I mean we have seen the revenue projections and they look really good compared to last year so we could still do that?

Mr. Clougherty replied theoretically yes.

Alderman Pinard stated I've been here three years and listening to this with the School Department and seems that every year O'Shea had a delay, and Tanguay and now we have Ron whatever his last name is and Tanguay again. We are elected by the people to set a tax rate at a certain time. I feel now that we have spent two weeks here and still nothing from the School Department. What I would like to know, do we have the authority to order anybody to tell Tanguay to get off the pot and we need this Monday at 3 PM. I think it's about time that we start showing who has got the authority here because it makes Kevin look stupid and there are people out there asking me today when are you going to come up with the tax rate. I don't think its fair.

Mr. Clougherty stated the Mayor has pretty much written that letter this afternoon without the pot reference. I think the point has been made. I think that has already gone.

Alderman Levasseur stated I have had people call me today also; a couple of senior citizens that need to know. There is some nervousness going on out there.

Mr. Clougherty stated I understand. I think this is a point where we really need to make sure for this rate going into the next year you know where you are because

we are almost half way through this fiscal year. I don't want to prolong this. In January we need to know where we stand, so if have to make some decisions and if there is some type of softening in the economy or something like that we are on good footing. So, I want to get this done now.

Alderman Levasseur stated I would be a little worried because we never really know what kind of snowstorms are going to hit us. Do we have to dip into fund balances or do they have a fund balance in Highway for that?

Mr. Clougherty replied we have a contingency account and they would have to try to work that out on their own...

Alderman Levasseur interjected how much is in the contingency account.

Mr. Clougherty stated I think \$150,000. Frank does conservatively budget for snowstorms and it may mean that if we have a lot of snow you may not do as much resurfacing, but those are the trade offs you'd see rather than going into something else.

Chairman Hirschmann asked so the Mayor has your office working with the School administration.

Mr. Clougherty responded yes, a letter went out today.

Chairman Hirschmann asked and there is a time frame when something positive is going to come out of this.

Mr. Clougherty stated two weeks or sooner.

Alderman Thibault asked so these meetings could be cancelled for another two weeks possibly, right.

Mr. Clougherty answered if we can get it done sooner, we will. As soon as we can do it we will because we want the cash to come in. We want to set the rate as soon as we can.

Alderman Thibault stated I think it is more to you now than to the school. If the school doesn't give you the figures you can't figure.

Mr. Clougherty replied right.

Chairman Hirschmann asked how much money right now is in the so-called rainy day revenue stabilization account. How much exists from previous overflows of money?

Mr. Clougherty responded there was about \$6 million I believe, but again we need to do those adjustments because again depending on where we end up on fund balance for last year that will affect the calculation for the rainy day too.

Alderman Hirschmann asked so that collects interest.

Mr. Clougherty responded yes. That builds every year based on where you are after you have done all of your calculations.

Alderman Levasseur asked that \$6 million, what percentage is that. I know you want to stay around 5 percent. Where are you?

Mr. Clougherty replied we have been around 3.5 percent.

Alderman Levasseur asked have you been getting up over around 4.

Mr. Clougherty responded no. I think we have been closer to around 3.5. The credit rating agencies would obviously like to see something closer to 5, but I think most accounting firms and businesses say 3.5 to 5 is reasonable and we've usually been in that realm.

Alderman Lopez asked could you explain to me the general ledger and the accounts coming from the departments. How do they balance their accounts? In the general ledger, for example, how do you take what is a debt owed to the City and put it into the general ledger and if that debt was owed to a department, how do you balance their books?

Mr. Clougherty responded the departments have to submit their payments through the system and that system we will take a look at as part of our audit function and make sure that they are charging pencils to the right line item and that there are sufficient funds in that line item to cover that. Those transactions by departments are directly taken care of in the payable section that goes into the general ledger. So it's not like they all have separate budgets or separate modules.

Alderman Lopez asked but there is no time...when you put something in the general ledger that doesn't agree to the balance in the account how do we go back to that department to adjust and make sure that that clerk understands what you did.

Mr. Clougherty answered if at the end of the year we go into a department, say City Clerk and there is an issue on a particular payable, is that your question... then we will sit down with Leo. First of all, we will make sure it is a legitimate concern. We are going through millions and millions of transactions are year. People are keystroking and those things they happen. You can't go through that much volume and not have some degree of error in terms of transcribing and stuff like that. So we'll make sure that we understand what the issue is and we'll talk to Leo and if he needs to do an adjustment, we'll have him do the adjustment. We will have him resubmit his payment voucher. On the cash side as you know we don't adjust any receivables without coming to this committee so that there is no change on that side.

Alderman Lopez asked so what you are telling me then is that at no time will anybody do anything to put in the general ledger unless they have coordinated that with the department. Is that what you are telling me?

Mr. Clougherty replied right.

Alderman Lopez asked if that is being done then what.

Mr. Clougherty asked if it's being coordinated.

Alderman Lopez answered if it's not being coordinated.

Mr. Clougherty replied if it's not being coordinated then what we have to do is take a look at what are the factors going into that. Why isn't it being coordinated? Is that a structural issue? Is that a programming issue? We then need to identify what that factor is and depending on what is resolved, and the magnitude of it, we will have the external auditors take a look at it and give us their recommendation.

Alderman Lopez stated so the basic person contact point is the person that's keeping the account books. That is where you get your information and nobody in the Finance Department is authorized to change those unless they coordinate. Is that correct?

Chairman Hirschmann asked if there was something specific.

Mr. Sherman stated I don't know what you are getting at.

Alderman Lopez replied I am not getting at anything. I just want to understand the general ledger.

Mr. Sherman responded you've got to understand that the Finance Department is responsible for those numbers.

Mr. Clougherty stated right.

Mr. Sherman continued stating if there is an entry that needs to be made, those entries get made. Now, what Kevin is describing is if we've got a question for a department like Leo or something and it's okay explain to us why you did this, but if there is something that's gone in wrong that we come to the point and we say that I've got a double posting of a cash receipt, I can't not make that entry.

Alderman Lopez stated that's fine, you can make the entry, but that's not my question.

Mr. Sherman stated I mean to say that entries don't get made without everybody's blessing on them isn't necessarily true because as we go through, we are responsible for those numbers.

Alderman Lopez stated you can be responsible but Kevin just said something different; that you do not make any entry in the ledger unless...

Chairman Hirschmann interjected I disagree with that Alderman because they make adjustments to the general ledger all the time.

Mr. Sherman responded right, we have to.

Alderman Lopez stated you can do that. I'm not saying you can't do that but the question is do you have to go back to the person in the department and tell them and explain to them so they can balance their books? Yes or no?

Mr. Sherman responded they are always aware of those entries that are being made.

Mr. Clougherty stated because they are on the system and they see them.

Mr. Sherman stated again I'm not sure where you are trying to go with this.

Alderman Lopez stated I am trying to understand the general ledger, which is changed, adjusted and all of that, right.

Mr. Sherman said yes.

Alderman Lopez stated okay I understand that. When that is done by you or whoever is doing it, don't you have an obligation to go back to the person that has the books so they can balance their books and they understand exactly what you did.

Mr. Sherman asked which books are they balancing. The books that we have are the system.

Mr. Clougherty stated they've put in the original entry.

Mr. Sherman stated I go into the system on June 30. My tax revenues were overstated by about \$55 million on June 30. I had to go back in and fix that.

Mr. Clougherty stated right.

Mr. Sherman responded it's not anything that anybody had to bless. It was wrong.

Mr. Clougherty stated right.

Mr. Sherman stated it came over from the tax module wrong. It had to be fixed.

Mr. Clougherty stated right, and it's based on the information...

Mr. Sherman interjected I've got to try to get those books closed.

Alderman Lopez stated I understand that, and I'm not questioning that.

Mr. Sherman stated in answer to your question, yes. We go in and we make entries. Those entries are sent back to the departments and the departments are made aware that there have been corrections that have been made.

Alderman Lopez asked and if they disagree with you.

Mr. Sherman answered then they need to make that case but what I'm saying is that we are responsible for those numbers.

Mr. Clougherty stated ultimately it's the Finance Officer that has the accounting control and has to disclose all that information to the public investors and everybody else.

Alderman Lopez stated we understand that. I'm just asking a basic question. When you do your job and you change the ledger...

Mr. Sherman interjected we've got this issue right now about this \$1.6 million problem between general ledger and the tax system.

Alderman Lopez stated I am trying to understand this my way, not your way.

Mr. Sherman stated I know. And we think we've identified about \$1.1 million of that. I sent out to three people today whether they concurred with what we believe to be true. I am not going to go back and change that until these three people all sign off and tell me that what I think is wrong is wrong.

Alderman Lopez stated okay so when the person goes back and you change your ledger and I'm trying to understand this...I'm not getting into the nitty, gritty, I'm trying to understand this. When you change your ledger, and that person keeping the books, whatever department disagrees, and I know you go back...now what happens if the disagreement and his or her books don't balance? How do they balance their books without a justification?

Mr. Sherman stated there is always a justification.

Alderman Lopez replied and you are willing to give them all of that justification.

Mr. Sherman responded I'll give anybody any justification. My books are open to auditors.

Mr. Clougherty stated that's ultimately, Alderman, at the end of the day if there is a dispute, that's why you have your external auditors to be able to take a look at how the entries went through because you have all these records of whose made what entries and what adjustments and they can make that determination independently as to what the best solution is here and how it should be treated. We pull together all the records based on our understanding of generally accepted accounting principles and it's our financial statement that we put out to the auditors. Then they will come in and say we disagree with how you did this or that and that is when they come to you with a management letter and say...

Alderman Lopez interjected the point being there's got to be checks and balances and just making an entry in the general ledger is not the checks and balances.

Mr. Clougherty responded right because all of those things are identified by individuals and there is a clear audit trail in the system of who made them and when. That's when your external auditors can go in and verify whether that was prudent and reasonable.

Chairman Hirschmann asked if Alderman Lopez was happy with his municipal accounting lesson or do we need to keep going.

Alderman Lopez stated no. I could go all night but I won't.

On motion of Alderman Thibault, duly seconded by Alderman Levasseur, it was voted to adjourn.

A True Record. Attest.

Clerk of Committee