

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

December 17, 2007
Aldermen Pinard, Thibault,
Smith, DeVries, Long

4:00 PM
Aldermanic Chambers
City Hall (3rd Floor)

Chairman Pinard called the meeting to order.

The Clerk called the roll.

Present: Aldermen Pinard, Thibault, Smith, DeVries, Long

Messrs: D. Cornell, B. Sanders, S. Wickens, T. Clark, T. Avampato

Chairman Pinard addressed item 3 of the agenda:

3. Department travel/conference summary reports submitted as follows:
 - a) Stephen Adams, Jr., National Airports Conference (Sept. 9-12, 2007)
 - b) Paul Mueller, Airport Certified Employee-Security Program (Sept 30 thru October 4, 2007)
 - c) William Biser (Airport), GCR Users Conference (Nov. 5-8, 2007)
 - d) Patricia Turcotte (Airport), GCR Users Conference (Nov. 5-8, 2007)
 - e) Joan Pitman (Airport), GCR Users Conference (Nov. 5-8, 2007)
 - f) Glen Ohlund (MEDO), 2007 NEDA Conference (Sept. 30 thru Oct. 2, 2007)
 - g) Fred McNeill (EPD), WEFTEC 2007 (Oct. 13-17, 2007)
 - h) June George (EPD), Northeast HTE Users' Group Conference (Oct. 9-11, 2007)
 - i) Denise Vigneault (EPD), Northeast HTE Users' Group Conference (Oct. 9-11, 2007)
 - j) Kim LeBlanc, Michele Bogardus and Lisa Sorenson (Finance), Northeast HTE Users' Group Conference (Oct. 9-12, 2007)
 - j) Frank Thomas (Highway, APWA Congress & Exposition (Sept. 2007)
 - k) Dawna Rooks (Human Resources), Northeast Users' Group Conference (Oct. 9-12, 2007)

- 1) Martin Boldin and Judy Cooper (OYS), NE School of Best Practices in Addiction Treatment Advanced Clinical Coursework/Opioid Treatment Coursework (Aug. 24-27, 2007)

On motion of Alderman DeVries, duly seconded by Alderman Thibault, it was voted to accept the department travel/conference summary report.

Chairman Pinard addressed item 4 of the agenda:

4. Abatement and Overlay Account Update submitted by the Board of Assessors.

On motion of Alderman DeVries, duly seconded by Alderman Smith, it was voted to discuss this item.

Alderman DeVries asked in addition to the reports that you submitted, can you give us a current status of where you're at with this year's overlay account?

Mr. David Cornell, Assessor, responded for 2007, the first time you could file for an abatement for '07 was after the tax bills went out. To date we've had an additional 37 abatements that have been filed, and they represent about \$25.5 million for '07. Taxpayers have until March 1st to file for an '07 abatement. We do expect that number to increase as we get close to the deadline.

Alderman DeVries asked you've got what put aside in the budget and obligated? What's the status of the account?

Mr. Cornell responded the status here is about \$1.4 million, plus there was an additional \$1.6 million placed in the abatement account for the '07 abatements.

Alderman DeVries asked and the \$25.5 million of course is representing the total valuation of property, not the requested amount?

Mr. Cornell responded that's correct.

Alderman Smith asked David, just on your assumption and so forth like that on abatements coming in, will you have sufficient money or will you have to come back to us in 2008?

Mr. Cornell responded each year we will come back to properly expense the abatement expense for that year's budget. So we will come back for the next budget year, and we will give you a figure for what we expect the expenditure for that year to be to match the money set aside in the abatement account for that year.

Alderman Smith stated I think we're going to get bombarded because the market value has gone down and we just reevaluated this past year. So I think we're going to get an abundant of cases up until March. And I notice that...did we have anything in '03? You didn't have anything in '03. Did we have anything still outstanding in '03?

Mr. Cornell responded for '03 those cases have now all been heard. We do need to make a journal entry of taking that money from the '03 account and move it forward, and as you will notice, the '05 account is running a deficit, so we will probably have to take some of the '06 money and move it back to the '05 account.

Alderman Smith asked can you speculate what you might...with the influx of what you have right now...it doesn't look good to me. And I think a lot more people are going to be coming in for abatements because they just got evaluated and their house has now depreciated quite a bit from the market value. So do you have any idea, speculation-wise, how you'll be coming in or are you going to wait until March, until the total amount of abatements have come in?

Mr. Cornell responded it's tough to speculate up until March. I will say, to date the number of 37 is actually down significantly from last year, but you would expect that because it was a revaluation year. But up until this point we haven't seen a huge surge in the number of abatements, but they do have several months to do that.

Alderman DeVries asked can you help us, historically, to understand David the percent versus the actual amount that's put into the overlay? You said that \$1.6 million was put aside last year, which to date has \$25.6 million of value against it. Is that the right amount of money to have put aside for a \$25.6 million valuation, or is there a percentage that you look to have?

Mr. Cornell stated the \$25.6 million, we expect that number to increase to \$300 million or \$400 million. I don't have the exact figure but we did go back to 1990 and we looked at the dollars appropriated every year in the overlay account, and the average is right around \$1.7 million. So the \$1.6 million is in line. And remember now our tax base is close to \$10 billion, so the base that we're working off now is three times what it was ten years ago. So expenditures remain, if you average it out, relatively constant, yet the tax base itself has raised dramatically.

Alderman DeVries asked so are you saying that it should have been two times or three times the \$1.7 million to adjust for inflation?

Mr. Cornell responded basically the \$1.6 million that we put aside last year I believe is the appropriate number. We are comfortable with the number that we used.

Alderman Shea stated this has nothing to do with that, but when the money is set aside, does that draw interest before you use it?

Mr. Cornell responded yes, it's put into an account until such time as it's used, so it's accumulating interest over the time that it's not being used.

On motion of Alderman DeVries, duly seconded by Alderman Smith, it was voted to accept the Abatement and Overlay account update.

Chairman Pinard addressed item 5 of the agenda:

5. City's Monthly Financial Statements (unaudited) for the five-months ended November 30, 2007, if available.
(Note: report to be submitted prior to or at meeting.)

Alderman DeVries asked the Clerk if they had those under separate cover.

Mr. Bill Sanders, Chief Finance Officer, explained that it was mailed on Friday.

On motion of Alderman DeVries, duly seconded by Alderman Thibault, it was voted to discuss this item.

Alderman DeVries stated I haven't had enough time with it to formulate any questions. I'm just assuming Alderman Smith might. If there are no questions from the Board...

Alderman Smith stated Bill, it looks like we're right on the mark for the year except for the few usual departments and so forth like that. It all relates back to the Assessors. I think that we're getting hammered with the household market value going down because we are not getting many building permits. The permits are way down, and so aren't auto registrations. I think that's the situation with the economy throughout the country. And outside of that I don't have any questions.

Alderman Lopez stated maybe the Finance Officer could enlighten us about what we're going to do with the expenditures in some of the Info Systems and Elderly Services when they run out.

Mr. Sanders stated certainly. If you compared the current year spending, which is on the front of the package. It is the fourth page back. The fourth page is 2008.

The fifth page is 2007, and you would note that the Solicitor's Office, Information Systems, the Facilities Department, and Elderly Services are running about the same this year as they did last year. The reasons that they appear to be ahead in their spending than what you would expect is that they differ amongst the other departments. Information Systems encumbers all of their service contracts for the computers and that sort of thing at the beginning of the year, so it looks like they've spent highly. The Solicitor's office, they've paid the audit fee for the year. That gets paid at the beginning of the year, as well as insurance payments for property insurance...that sort of thing, has all been encumbered at the beginning of the year. The Facilities Department encumbers the entire Aramark maintenance contract for the entire year at the beginning of the year. They did that this year and they've done that in prior years. Overall, those items are consistent with prior years and I don't at the moment have any concerns about those departments managing to the original budgets that have been established. I don't believe that they'll run out of money, based on what we're seeing through November, compared to the prior year. And overall, as Alderman Smith said, the City itself...we have an unencumbered balance of about 58.5% percent right now for this year. And if you look back to last year at the same time, we were at about 58.4%, so through November we looked good. Obviously there have been a couple of large snowstorms, and I'm sure the Highway department has incurred expenses a little quicker this December than they did a year ago. So the December reports could look a little bit different, but through November we looked good. If you turn to the revenue section, we are overall in good shape on revenues, with the exception of two line items: auto registrations are about \$300,000 below the same period last year and about \$300,000 below our budget for this year. And the same could be said for building permits. That's also about \$300,000 short. All other revenue items appear to be consistent or within a margin of error that you would expect in terms of a budget projection.

Alderman Lopez asked about the Elderly Services.

Mr. Sanders stated they encumbered all of their utility costs for the balance of the year. They have had some difficulty in the last year. They did overspend slightly, and we'll continue to watch them this year and make sure...

Alderman Lopez asked if they continue to spend...if they go over?

Mr. Sanders responded we have a surplus overall in the City and at the end of the year in the audit process, if they've overspent by a couple thousand dollars, we transfer money from another area to cover that.

Alderman Lopez asked have they sent documentation in requesting the funds?

Mr. Sanders responded this year they haven't. At the end of the year last year they did, yes.

On motion of Alderman Smith, duly seconded by Alderman Thibault, it was voted to accept the City's Monthly Financial Statements.

Chairman Pinard addressed item 6 of the agenda:

6. Finance Department reports submitted by Sharon Wickens, if available.
(Note: reports to be submitted prior to or at meeting.)

Sharon Wickens, Assistant Director of Treasury, stated this was also sent to you under separate cover. Does everyone have that? The only comment that I would like to make is on the reports that I submit to you, the very last page would be the Accounts Receivable Over 90 Days Summary. And that's where I highlight some of the bigger receivables that haven't been received yet. And since this report has been done, we did get some receipts in that I want to make you aware of. One of them is from the State of New Hampshire Treasurer's Office. That's \$454,000. That payment came in the very next day after I did the report. Fraser Insurance Services: We've received about \$53,000 of the \$130,000 that's still outstanding. There are some insurance issues there, and I did talk with Mark Fraser this morning. It appears we met our threshold on some flooding at the Police Station, so now they're going to a third insurance company and providing them documentation, but we should be getting that in. Also, Devonshire Commons: They had some extra detail work over there for them. That was an insurance related issue. I don't know what happened there. They owed us about \$12,000 plus fees, which went up to about \$14,000, and that has been paid in full since this report went out. Those are the only ones I wanted to highlight for you, but I will answer any questions you have.

Alderman DeVries stated the question, of course, would be the page in front of that, the next to last page, the write-offs. The third from the bottom, the paving company, is that being written off because they couldn't locate them?

Ms. Wickens responded yes. That went to the collection agency and they had no luck. It actually was forwarded to our Solicitor's office...

Alderman DeVries stated I just happened to notice the business recently, so I'm hoping that somebody...

Ms. Wickens stated you did? I know Tom Arnold was looking for this company because it wasn't located on the address that we had. And when he went to the

Secretary of State, they said it was no longer in existence and that it was dissolved with them.

Alderman DeVries stated two weeks ago there was a large sign up with this company's business at By-pass 28 Hooksett, right off the Massabesic traffic circle.

Ms. Wickens stated we could certainly remove that one from this list and I could do some further research with Tom on that.

Alderman DeVries stated it doesn't mean they haven't reincorporated with a variation on the name.

Ms. Wickens stated right. But we could look into it before we wrote it off.

Alderman Smith stated I might be able to enlighten you. I didn't know we were going to go to write-offs, but I happened to see the truck over on Woodbury Street. It had ROL Rite Paving, but also I think they went by another name and they did a job up on Maple Street and you might want to check Wren's Nest, which is also on there. I think that's the same company, so if you want to pursue that you can, but I saw a truck, my personal opinion, with ROL Rite Paving over on Woodbury Street right next to CVS doing work. Now I don't know if they filed for bankruptcy just using the truck and didn't take the sign off but I know they also operate out of Wren's Nest too. So you might want to pursue that.

Ms. Wickens stated right, but the problem with Wren's Nest is they had gone bankrupt and then the daughter had opened the business, and you couldn't hold the new business responsible for the other one, but Tom can certainly look at the ROL Rite issue.

Alderman Smith stated the thing that bothers me the most is that these people have to get a permit from a different agency like the Highway Department for an excavation permit. And, they have to get a police detail, so I don't know why these agencies aren't down on a list saying they owe the City money. We shouldn't be granting the service if they owe the City money. This is over 90 days. I don't think personally we should carry anything over 90 days. That's my own personal opinion.

Ms. Wickens stated right, and I can tell you that all of these went to a collection agency. And what I do is whenever an account goes into collections, I do forward this to Highway and to Building and say, you know what: here are all the departments that are currently in collections. If you see any of them, watch for them. They've caught a few but they don't catch them probably like they could.

Alderman Smith stated just one more write-off. At the end of the line is the last one, all efforts exhausted, and they're in business right now on Pearl Street.

Ms. Wickens asked they're in business on Pearl Street?

Alderman Long stated as Alderman Smith has stated, are there maybe...Tom may be able to answer this...Is there some way we can attach... we can be named on their performance bond or what have you to guarantee our monies? I mean, it's all, you know, Police, Traffic, Highway...so it's you know, there's performance bonds or liability bonds...

Ms. Wickens responded I don't believe we have a performance bond with any of these.

Alderman Long stated but our entity would, like the Highway Department.

Ms. Wickens stated no. Not under these names, we currently don't have any performance bonds under them.

Alderman Long stated okay, so when somebody's doing some paving and they need to hire police detail, the fact that they need to hire police detail, we as a city can't require them to name the City or the Police Department on the bond, to guarantee our monies if they happen to head out?

Mr. Tom Clark, City Solicitor, we'll take a look at it, but I think it would be more trouble than it's worth.

Alderman Long stated we don't necessarily have to be the contracted agency, but it can probably come under the Police. Every time there's a detail called for, I don't know whether it would be an ordinance or what have you, that they're required to bond for whatever they need for the detail, and that could be part of the performance. It wouldn't be our headache. We're not a contracted agency. It wouldn't be for us to follow. It would only be a mechanism for us to guarantee payment. We would go after the bond after 30 days, or what have you. So when they call the Police Department for detail, they would be required to show a performance bond where...or somebody would have to, whether it's the general contractor or whomever they contracted from. They would have to show that the detailed monies are guaranteed or the Highway employees are guaranteed, the Highway is guaranteed its payment.

Mr. Clark stated we'll be happy to look at that with Finance and talk to them about it. You've got to realize that for a lot of these projects, there are no bonds in existence. When they're doing small paving jobs, they don't go out and get a

bond because it's cost prohibitive. But we'll take a look at it and see if it can be done.

Alderman Lopez stated when you're looking at that, I know with the Planning Department, for an example, when a new building goes up and they're supposed to put up trees and stuff, which they can't do now, they have to put up a bond or put up a certified check, and when they do it they get their bond back. I just went through that, so that's one of the other ways they could do it. They have to get a permit, so...but anyway, look at it.

Alderman DeVries stated Sharon, I realize we're headed into the new year, new committee members likely, but I'm thinking that once again we should maybe have an update from Info Systems on where they're at with the technology as far as the red flagging/alerting on these accounts, anything that has previously been written off and just...I'm sure it would be useful to the Committee to know the current status of Info Systems working on the interconnectivity between all of the departments.

Ms. Wickens responded certainly.

Alderman DeVries stated I'd appreciate that.

On motion of Alderman Thibault, duly seconded by Alderman Long, it was voted to accept the write-off list for Accounts Receivable from the Finance Department.

Ms. Wickens stated I just wanted to ask...part of the write-offs that you just went through were the City's, but we also had a page that was specifically Airport. Did you want to address that or are you all set? I do have somebody from Airport here to talk on that.

Alderman Smith stated I would like to do the Airport because I do have a question.

Ms. Teresa Avampato, Airport Financial Manager, stated attached to this document you had a memo from us in regards to some pre-bankruptcy amounts from various airline. Most of these funds...United was October 3, 2005, and the other airlines were September 3, 2004, and these funds all involved amounts that were before they went into bankruptcy. So they're current for their new payments, but when they went through reorganization they weren't required to pay these funds. So they've been sitting on the books for several years now, and the purpose was just to get the books cleaned up. We still do have valid claims with the courts. If they do change, if they reorganize again, or if they change their minds, there still are documents out there. But it was just to clean up the books. They

originally started at \$350,000 but a lot of the other airlines, when they emerged from bankruptcy, they were required to pay, and they did pay, so this was just the other airlines.

Alderman Smith stated I read this report and I noticed that you sent a few people down to New Orleans, and one of the questions...the person said she learned quite a bit. Do you have a penalty after 90 days if it's not paid? Do you have a finance charge?

Ms. Avampato stated we go through, like, we're still part of the City in regards to, I mean, we go and we review our aging accounts and we keep on top of them as well. We don't have any finance charges in the system as of yet.

Alderman Smith stated no finance charge, okay. In this report, I won't tell you, is one of your...at this conference and she said that she was very, very surprised that a lot of airports did have a finance charge and we didn't. The way she put it down, it was something I planned to ask about.

Ms. Avampato stated yes, I know who the individual is that you're talking about, and it is something that she discussed with me when we came back from the conference, so it's just something that we haven't gotten in place yet as of this time. We have to check with the City and find out if the City is capable of doing that, because our system connects to the City system as well. But that is something that we are looking at.

Alderman Long asked does the Airport have a loss recovery, and if so is there a...starting at \$100,000? None of this is recouped?

Ms. Avampato responded this is the first amount that we've written off in...ever. So we were really stringent about doing it.

Alderman Long asked do you have loss recovery insurance?

Ms. Avampato responded no. We pursued every conceivable option.

Chairman Pinard stated Teresa, I have a question. I'm looking over here at ROL Rite Paving. They're in business and they're on By-pass 28 and healthy, and I don't know why you have a write-off.

Ms. Wickens stated yes, that is actually under the City's write-offs, and yes, that was brought up and we are going to look into that to see if we can find them. If it is the same business or if it's just a similar name, or what. We're going to look into it.

On motion of Alderman Smith, duly seconded by Alderman Thibault, it was voted to accept the Airport write-offs.

Chairman Pinard addressed item 7 of the agenda:

7. Finance Officer and City Solicitor to provide information regarding biennial budgeting.

Mr. Sanders stated we did have a handout this evening. I think the Clerk's office has given you a copy of it. I'll just quickly walk through the handout and take your questions, along with the City Solicitor. We've worked together on this. As you know, there is legislation in place that permits the City of Manchester to implement biennial budgets. The legislation actually permits us to implement one twenty-four month budget or two twelve month budgets. As a point of reference, the State of New Hampshire has been on a biennial budget for some years now, and they use two twelve-month budgets, so two twelve-month appropriations rather than a cumulative twenty-four-month appropriation. At the present time there are no other municipalities in New Hampshire that have adopted a biennial process, just the State, and the City of Manchester is considering one. In the course of our review, we did meet with the Department of Revenue Administration to discuss tax issues associated with biennial budgeting. Really the only issue that they had was if we actually passed a twenty-four month budget, they could not support that because obviously their charter is they have to assist us in setting annual tax rates. And if you have a two-year budget, you don't have an annual tax rate. So, the Department of Revenue Administration would only support a two, twelve-month budget process. As noted in the middle of the schedule, there would be some ordinance changes required to be passed by the Board of Mayor and Aldermen should you elect to move to an biennial process, and that is due to the fact that all of the ordinances are written around an annual process today regarding the Mayor's annual budget message and his submission of a budget, and setting dates for when the annual budget must be approved. So the first ordinance that would have to be updated or revised if we went to biennial budgeting would be 35.030. And we've also pointed out that there are three other ordinances: 32, 33 and 35 that should be considered for revision if we go to a biennial budget. These are the sections of the ordinance that deal with surplus carryover in the areas of insurance and workers compensation, the rainy day fund, that sort of thing. If we go to a biennial process we need to amend or at least consider amending, and I think the Solicitor would recommend that if you did elect to do a biennial budget that you would want to amend these additional ordinances to provide for carryover of surplus into the second year. One of the things to consider as you reflect on whether we want to do biennial budgeting is the idea of the second year budget being reopened. That is, the second year of the

biennium being reopened. That would require a charter amendment in order to commit the reopening of the second year budget. So if we were going to implement it this year, I'm not sure time permits. The calendar would not permit the charter amendment that would be required if you elected to reopen the second year. The implication of that being is that you would be locked into the second year expenditure appropriation. Another thing to think about and discuss is the fact that the School District should be included in this biennial budget process. This is not just for the City of Manchester but for all the component parts, the School District as well as all the Enterprise Funds would be considered for biennial budgeting, and they may have other issues that I'm not familiar with at the moment but I make that point. We also met with the rating agencies to talk about, did they see biennial budgeting as a positive thing from a credit rating point of view or a negative thing, or a neutral thing view, and their view is very much neutral. They're very focused on annual budgets, annual tax rates, annual financial statements, annual, annual, annual. They don't have a "bi" in front of anything that they're doing. So I think the impact of the biennial budget going into it would be a neutral from the rating agency. I don't think it would be helpful and I'm not aware at the moment...no one has said it would be negative. But they wouldn't see it with a positive. Another issue or a series of issues is just to think about what actually is required in order to do a biennium budget. It requires you, as you can imagine, not just to look out 12 months, but you need to look out 24 months. And there are cost categories and revenue areas that the City and the School District have that are not a difficult thing to do, and then there are other areas where it is difficult, and I would just point out a few of them to you this evening. First off is the whole area of health care costs. As you know, that's an area where the City is self-insured both on the City side and the School District side, and we're not in a position to lock in insured values for those amounts, so we would be subject to the vagaries of the health insurance market place out there where inflation can be significant. Another area of cost to think about over two years is pension costs. On the City pension plan, where a number of our employees participate in the City plan, I have been in contact with the director there, and we are working with the actuaries to develop two year budget numbers for pensions. But we have a significant number of our employees that are participants in the State retirement plan: all of the police officers, the fire, and all of the school teachers, participate in the State pension plan. The financial situation with the State plan, I think you're already very familiar with. The State is on an every two years of setting rates and that's not the cycle that we would be on. Their second year will be 2009. We'll be setting a budget for 2010 if we go to a biennium, and we won't have input from the State as to what that pension costs would be, so that could be an error of unpredictability. And of course energy costs, as we all know, are variable and seem to go up over time, so once again, we're not just talking about twelve months of energy costs; we will be projecting out 24 months of energy costs. The final category I would mention is the whole

area of revenue projections. As you all know, when you develop the annual budget we also develop, not just an annual appropriation budget, but an annual revenue budget, and the revenue budget is very important because that really determines, as you know, what the tax rate is going to be. When you go out two years, there are components of our revenue numbers that could prove very difficult to project. The first one, and likely the most significant one, would be State education aid. I think everyone who has been a part of the Manchester City government for the last ten years recognizes that's a number that can change quite significantly for Manchester. It can be a positive number in one year and a significant decline in the subsequent year. If we're on a biennial budget process and we don't get as much education aid in that second year as we originally projected, we're going to have to deal with that as a significant revenue shortfall, and you're not going to be able to open up that second year budget and change the expenditures. There's also the area of auto registrations and building permits, which, as you know we are tracking poorly at the moment to our budget for 2008 in those two categories. With this biennial process we would be trying to project them out for two years. The final revenue area that I would mention would be...you touched on it with the Assessor earlier...it's the whole area of assessments and what property values are doing, which are fundamental to all of our revenue because that drives the tax rates. We would be projecting assessed values out two years for your purposes of getting at least an idea of what the tax rate would look like in year one and year two of the biennial budget. Of course we would always be, just to confuse this a little bit more, on an annual process in setting the tax rates with the DRA. In that second year we would have to adjust our State aid if we got less education aid. We'd have to adjust our building permits and it would have an effect on tax rates. I had just a couple of notes that I had written that might preempt your questions and just address them now. First off, I think there are positives to a two year process, potential positives. One, it improves, or at least moves us down the road, of taking long-term outlooks on what programs we're working on and what the real costs of them are. Many times all of us have been in budgets where, 'It will cost us money this year but we'll save money next year.' Well, and you sometimes wonder, did I ever see that savings in the second year? Because you're not looking at the two years together. In a biennial process, obviously, if Bill Sanders says it has cost money this year but you'll save money next year you'll have the opportunity to ask Bill Sanders where the savings are in the second year. You also see the costs compounding of decisions that you make. You might think of them as just one year decisions, but there are salary decisions, there are contracts that you enter into and approve that have compounding effects on budgets, and a biennial budget will provide you the opportunity to see what that second year impact would be. So I think those are not negative things; those are positive things for all administrators in government, but in balance as I sit here this evening, I'm not one hundred percent convinced that we're ready to do this. I still need some things to be proven, both in my own way,

and I need to know what the department heads, as they go through this process and develop their two-year budgets, what their level of confidence is. But, just because I'm not convinced of it, and you may not be convinced of it, you don't need to make a decision this evening. We're not asking you to vote tonight. You're not going to have to vote tomorrow night, and you may not have to vote on this until March or April when you actually approve the budget. I think, speaking for myself and the City Solicitor, I would recommend that we proceed to develop a two year budget process and that department heads more forward to develop two year budgets, and that the Aldermen retain the authority to stop the process or pull the plug on the second year...call it what you will...at the appropriate time. But some of the things that maybe I'm concerned about, or other department heads are concerned about will turn out to be not all that much of a concern, once we've walked through the process in a deliberate way and developed budgets. On the contrary, we could discover things that I've not even mentioned this evening that may be even more significant than what I've talked about that you might decide not to do it. But I think in the interest of making an informed decision, department heads and the City should proceed on a two year budget process, knowing that ultimately the Aldermen need to decide on this in the coming months when they see the whole budget. Those were my comments.

Alderman DeVries stated the positives that you mentioned didn't include significant cost savings to the taxpayers. Do you anticipate that we'll recognize...and it's been stated the obvious employee time in preparation of the budget...but do you anticipate any savings above and beyond that?

Mr. Sanders responded to be perfectly honest, I don't see a financial savings from employee time. If Bill Sanders is a full-time employee of the City, in the second year when I don't have the budget, you're, I presume, still going to pay me to come to work and do the things that I do. So just because I'm doing a two-year budget at once and don't have to do it in that second year, there may be some overtime savings, but I don't see any significant savings. I think the savings that may be achieved will be more in the line of operating efficiencies and so-called soft dollar things that are difficult to quantify and difficult to see. But I don't think the biennial budget is going to give rise to cost reductions in the City. I could be wrong, but that's my opinion.

Alderman DeVries stated I do remember when this was brought up before, it was actually the contrary that was predicted; that it would, rather than a savings, actually cost us additional dollars, and that would be because of the built-in anticipation for worst-case scenarios in that second year. Is there any way that we can qualify or quantify that statement?

Mr. Sanders responded I think we will as we go through the process, and that's why I was encouraging you to continue to support the two-year process, at this point anyway. I think if it becomes an issue that the administration is so concerned about the second year that they're padding the numbers, just to use that phrase, then I think that would be a bad...we shouldn't do two year budgeting. If we can't come up with reasonably solid cost estimates and reasonable road maps to achieve them, then I would be somewhat skeptical about the value of a two-year budget. I don't think it should be just to pad the second year: 'I can't make up my mind so I'll be very conservative.' And if everybody in the City is very conservative on the one side all the time, the numbers are going to be much larger than anyone is going to want to deal with.

Alderman DeVries stated maybe Mr. Sanders I could ask you to be a little bit more specific about following the process. You anticipate for us to go through due diligence to investigate this. How far into the budget are you anticipating we would have to go in order to really know if budgets are being padded?

Mr. Sanders replied well I think first of all, and I don't speak for the Mayor obviously, but with the Mayor's budget message in March, I would encourage that it be a two-year budget message, and that it propose two years of budgets. As the Aldermen go through their department budget reviews, that department heads should have to review their two-year budgets, and I think that the detail of your questions and your interest and curiosity about year two will shine light on whether they are realistic. I don't mean to criticize department heads. I think department heads should be forthright and clear about why it is or is not difficult to estimate numbers and how they've tried to deal with the situation. In going through that there are certain things that we probably have a pretty good handle on. Salaries...a big part of the City's expenditures; it's over fifty percent of our budgets. We probably can get that number within ninety-nine percent accuracy...overtime and some things. But there are other areas where we can predict what that's going to be. Supplies...you could go through a ledger. The unknowns are going to be on the revenue side, I think, and the expenses that I mentioned – pensions, energy costs, healthcare costs, and weather as it relates to the Highway Department.

Alderman DeVries stated one final question, and then I know that there are others that have questions. You also didn't mention anything about the School budget, and how you envision this will work with the School budget. Are they going to be submitting a two-year budget as well?

Mr. Sanders responded if I neglected to mention that, I meant to...that the school district is part of the City and you are the appropriating body and you would

appropriate a two-year budget and that they would prepare one, as would all the Enterprise funds.

Alderman Smith stated Bill, after going through two years of annual budgets it's somewhat cumbersome, but I do have this. If a department has a surplus the first year, will they be able to carry it over to the second year?

Mr. Sanders responded as mentioned, the Solicitor and I would recommend that the ordinance be changed so they could carry the surplus over to the second year, yes. An ordinance would have to be amended and that would be part of your decision.

Alderman Smith stated now, if they have a deficit the first year, where do they get the money to operate the second year?

Mr. Sanders responded they can't have a deficit.

Alderman Smith stated all right, I'll give you a good example: I'm sure the Highway Department is going to come in to see us some time next year because they've spent about \$250,000 in two storms. And we can't control the weather. The only recourse they would have would be either not provide the services or to lay off.

Mr. Sanders stated they would have to go through other cost-containment exercises. We would have contingency amounts that could be transferred to departments with the approval of the Board of Mayor and Aldermen. But they can't overspend their appropriation. No one can go into the year thinking that's the likely outcome. They have to manage to the budget. And I think everyone is this year through November.

Alderman Smith stated if that's the case, then there's no recourse for that department to do anything except what I just said, either lower their services they're providing or lay off. In other words, there's no recourse. They can't go to any other avenue. They can't...the towns, they open up the budget. You know, you go to a small town. If they have a fire engine that's \$250,000 and they've gone over the budget and they need it, they have a special meeting. I don't know...we couldn't do that probably, but I wonder how we could get money because I'm sure there are going to be departments that...just what happened with the Parks and Recreation with the flood situation. They need money to operate or provide the services.

Mr. Clark stated Alderman, our Charter does not allow us to reopen budgets or pass supplemental budgets except in one very specific instance: where there are

certified excess revenues that were not anticipated. That's not the case you're talking about. If a department is running short, the only avenues they have are, as you had mentioned, they can lay off, cut expenses, or they can come to the Board of Mayor and Aldermen to find other funds that can be transferred out the Contingency accounts, out of Salary Adjustment accounts. Or the Board as it has in its past wisdom, can issue directives to departments to curtail spending by a certain amount, thus creating more surpluses to be transferred. But those are the limits.

Alderman Smith stated you brought up a good point. Would the Mayor in his budget or the proposal with the department heads, would he put in a sufficient amount in a contingency just to cover emergencies in one or two departments as part of his budget?

Mr. Clark responded I don't think we can anticipate what he's going to put in his budget, but it is certainly allowed. I would recommend that if you go to a biennial budget, two-year budget, that you do have a substantial contingency to allow for variations that we're not going to be aware of.

Alderman Lopez stated I want to thank Mr. Sanders for being candid about biennial budgeting. I really appreciate it. I have a new letter here, a packet we had the wrong letter in, but back in June I submitted this to give plenty of time to get some thought into it. I believe that the course that Mr. Sanders is recommending, that the Mayor since he has told his department heads to submit a two-year budget, let's see what they do. I think that as we go along here, I know that former Mayor Baines also did a two-year budget with department heads and they found out quite a few things. It's a great exercise to go through. There's a lot of problems on the horizon. I agree with Alderman Smith, it would be nice, and some of the small departments would be very happy with it. They wouldn't have to go through the process. Most of the small departments are all salaries in the first place, so it's a matter of...But on the surplus, it could be that on a two-year budget people don't do things the first year in order to have a surplus. That's one point that I'd like to bring out, that where by the second year they'd have more money. And then if some other department runs into a problem, they wouldn't have that money because it would be transferred over to another department. So you always have that danger specie out there, so to speak, of not really keeping your money because it is City money. Like I said in the beginning, it's on the surface that it sounds like an excellent idea. But when you get into the nuts and bolts of it, it's very difficult. The State, on the DRA for an example, as you indicated, could not support a 24-month budget. The tax rate being set and misleading on the second year, if they're not going to do a twenty-four...So, having a biennial budget you're just assuming that maybe in the second year you're going to get a tax break, and not knowing until the time that you send the

numbers up there and what they would be. The School tax, where the State has a two-year budget, the only thing that they include in there is the School tax. And they do not include all the other expenses that we have. Just a note, I just read in the paper the other day that they're thinking about another constitutional amendment for the schools, so that's an unknown factor. I do believe that once the exercise goes through and people start doing their budgets, and they start increasing for fuel, or whatever the case may be, the second year, we're going to see some different turns. The process...and I brought this to the Board of Mayor and Aldermen's attention only for the simple reason that we have to take a vote and do this. We have to know...are we doing the right thing for the City of Manchester? There's no other city or town in the State doing this, as you've indicated. There must be some other cities around the country that do this. I'm not positive but I'm sure that that could be found out. I think that the report that you've given is an excellent report, and I hope the Committee takes your recommendation and uses it as an ongoing process. As we get the Mayor's budget, then we can decide and get more input from department heads or other people that are in knowledge about this. Thank you.

Alderman Shea stated I'd like to focus primarily on the rainy day funds, the financial aspects. Right now, when we finish with the year's budget, what happens is a certain percentage goes into a rainy day fund. And if it's a two-year budget, the first year would there be money placed in that rainy day fund or would it carry over to the second year?

Mr. Sanders responded that would be a decision that the Board of Mayor and Aldermen would have to make. The recommendation or the view that the City Solicitor and I had at this time was that we would recommend that we amend the ordinance to carry over any surplus into the second year. So you would only be putting money into the rainy day fund every two years, as opposed to annually.

Alderman Shea asked but isn't there some sort of...not a requirement...but a audit type of stipulation that we should be about ten percent or so, in terms of the budget, in a rainy day fund. Something of that sort – eight to ten percent. Is that correct?

Mr. Sanders responded yes, I don't have the percentages but yes, there are some benchmarks.

Alderman Shea asked so how would you be able to cope with that if you have a two-year budget and you're not putting money in the first year, and you're putting in the money possibly the second year? That would be a major concern because that really allows us to have a very strong bond rating. I mean, that is something that would be serious consideration. The second point is that the School District

does have reserve funds. They have five reserve funds, and they utilize any kind of surpluses that they have in either health or athletics or so forth in order to place any amounts that they don't utilize into those reserve funds. Is there some thought about how that would be impacted? Is that something that the ordinance would have to be changed, or they couldn't do it if it's a two-year? How would that work? That's something you have to think about.

Mr. Clark stated it would have to be thought about, and I think, as Bill Sanders told you, we really haven't gone through the School side in very much detail. They've been informed by the Mayor's office to do a two-year budget, but the reserve funds were set up by resolutions. They may need to be amended to take care of that if they are going to be carried over between the two years.

Alderman Shea stated that would have to be something that would be thought about. The other thought that I have is that in our society, those that live according to the rules usually are the ones that either run their departments competently and obviously are a credit. There may be, without a firm kind of earmarks in place, as it were, that some other departments may not be as solicitous the first year or whatever, because of the safeguards that are put in now. That is to say, during a twelve-month period there's a certain amount of...let's use the word discipline...that the departments have to utilize. With a twenty-four month period of time, there may be less discipline in terms of how things are really managed, so that the oversight might not be as keen as it would be in another, I would say closer time range. So I would think that that's another consideration that we all...I don't know if you want to comment on that. Past experience...you've worked in different areas, Bill. I'm not saying your present situation. How does that work?

Mr. Sanders responded I think any successful budget process requires the ownership of the directors and the department heads. And they have to be signed up to it and see the benefits of it and be willing to make it work. If they aren't...and I think we have a great group of department heads...I'm just...But if the leadership of the City doesn't support it, it's not going to work well. And it might not work at all. And that's something I think as we go through this process and see the level of ownership and enthusiasm, or non-enthusiasm, for this at the department head level, it needs to be something that people need to think about as they make their decisions as to whether it's a good idea or not. But they've run the one-year budgets very well. If you look back over history, in my knowledge anyway, there have been surpluses generated annually and I think department heads have run their departments very well. So I start out thinking they can run a two-year budget. I'm not advocating the two-year budget, but I think with some comfort at how it's done, good discussions with you Aldermen about what the appropriation numbers are, I think that good department heads will do a good job in running a one-year budget or a two-year budget.

Alderman Shea stated but what I'd like to see on the part of the first budget submitted, the Mayor submitting an annual budget and a biennial budget so that we could have a comparison analysis of what one is in terms of how it would work out versus the other one, rather than just submitting a two-year budget. I would like to see that in place. I mean, you know, in other words, the ability to analyze and to scrutinize, you know, has to be comparatively. You can't in other words compare unless you have the comparative elements in place. So I would like to see a) a twelve-month budget and b) a biennial budget, so that if there is a certain amount of saving and obviously that's what we're all looking for, and efficiency, that's fine. So, thank you very much.

Alderman Smith asked Bill, have you talked to our sister cities like Nashua, Portsmouth or Salem about why they haven't participated in a two-year budget? Have you asked for any input?

Mr. Sanders responded I have not. I can do that. They don't have legislative authorization to do it. The legislature of New Hampshire only gave that authority to the City of Manchester.

Alderman Long stated with respect to the rating agencies, they're going to remain neutral. Would you think that they would look at this experience before they would be confident in allowing us to keep a good rating? Do you think this would...I understand they've got to be neutral but as a rating agency I would think that if you're going into another realm, let's say, that you would want to see some experience before you gave a favorable rating. Do you see the agencies sort of being a little disillusioned about wanting to, let me see how they do with two years, therefore...or would they look at the first year and say, okay that's solid. Do you understand what I'm trying to get to?

Mr. Sanders responded I think so. I think it's going to be completely dependent on our confidence and our ability to express our confidence and our plans over a two-year period. I think dealing with rating agencies very much depends on our ability, all of us, to explain our programs, explain our budgets, explain our challenges, explain the good things about Manchester. I don't think necessarily...rating agencies are saying that...whether you do a two-year budget or a one-year budget, they're not going to...they're indifferent to that. It's really, they want to look behind the words and all of that to what are your plans and how solid do they think they are, vis a vis...So I think it's up to us and our confidence and our level of confidence that we're going to be able to achieve a two-year budget. I think if we don't have that confidence that we shouldn't do it. I think that would not be a good idea.

Alderman Long stated in this time that we're in of massive percentage increases in construction and heating fuel and health insurance...I mean, we've done thirty percent in a year. There's no way of anticipating that. I agree that a one year budget, our department heads have their thumbs on that. They're secure in what they can do. However, no one can really guesstimate a year down the road. Is health insurance going to skyrocket? Is the State going to require us to pony up to some of this pension cost that we're lagging behind in? So, would you anticipate that the second year there would be a little more contingency put in there just for that reason?

Mr. Sanders responded yes.

Alderman Long stated and also what I wanted to do, what Alderman Shea was saying about the funds, the carryover funds, you're looking for an ordinance change to carry it into the second year?

Mr. Sanders responded yes.

Alderman Long asked would you think, I mean, in your opinion would you think that at the end of the second year there would be less money being put in those rainy day funds because of possible shortfalls or whatever? Or do you think that would kind of wash...balance itself out.

Mr. Sanders responded I honestly don't know. When you think about money that goes into a rainy day fund, it's a combination of expenditures - and we're focusing on expenditures right now - and revenue. And there have been years when we have had revenue surpluses that have generated rainy day fund contributions. It's not a very good answer, but I don't know what the end of the second year would look like. I think maybe if you ask me in three months time, we all might have a better understanding of what the second year looks like, or what people are prepared to put into contingency, for example. What is your appetite for that? Three million dollars in there and I can assure you we can probably have a surplus at the end of the second year, but I don't think you're going to vote for that.

Alderman Long stated I think it's possible to do it. I think it has some hurdles.

Alderman DeVries stated I move that we Receive and File this item. This is the last meeting for this Committee of the year, so we can't make any other motion.

Alderman Lopez stated you can carry it over to the next Accounts Committee. That's what normally we do.

Alderman Smith stated it's for information only.

Alderman Lopez stated information, but I mean, I think that it's a report to the Board of Mayor and Aldermen too.

Alderman DeVries stated I think Receive and File and it will be reported out.

Alderman Lopez stated I personally think, my own opinion, if I may, Mr. Chairman, I think you ought to just table it and just switch it over to the next Accounts Committee.

Alderman DeVries stated we're going to see you in January anyway to continue the discussion, so tabling is fine.

On motion of Alderman DeVries, duly seconded by Alderman Thibault, it was voted to table this item.

There being no further business, on motion of Alderman Smith, duly seconded by Alderman DeVries, it was voted to adjourn.

A True Record. Attest.

Clerk of Committee