COMMITTEE ON FINANCE

May 17, 2004 **6:00 PM**

Mayor Baines called the meeting to order.

Mayor Baines called for the Pledge of Allegiance, this function being led by Alderman Osborne.

A moment of silent prayer was observed.

The Clerk called the roll.

Present: Aldermen Roy, Gatsas, Sysyn, Osborne, Porter, Lopez, Shea, DeVries, Garrity, Smith, Thibault, Forest

Absent: Aldermen Guinta and O'Neil

Messrs: Randy Sherman, Kevin Clougherty

Mayor Baines addressed Item 4 of the agenda:

Debt service presentation by the Finance Department.

Randy Sherman, Deputy Finance Officer, stated before I start I do want to offer Kevin's apologies for not being up here at the moment. He's actually on the phone with Neil Kirk with the State dealing with the swap legislation. And begin before I start I would like to introduce someone to you all, the gentleman in the back row in the white shirt talking to Seth is Jeff Lubkert. He is an intern that has been working with me on this presentation. He is from UNH Manchester. The first thing I want to do, if we walk through I'm just going to give you a little background history on the City's debt and where we currently stand and then ultimately at the end of the day tell you some changes to our current policies that we're offering up tonight probably to send to a committee and we can deal with at that level. The City's bond ratings: the City is currently for general obligation debt is rated by three rating agencies. Fitch has us at AA+ and they have out outlook at stable, S&P, Standard & Poors, has us as AA+ stable as well, and Moody's has us at AA2, stable. Moody's uses the numeric, S&P and Fitch use the plus and minus, so Moody's actually has the City's general obligation debt one notch below where Fitch and S&P have us. As far as Fitch, they see the City's strengths as financial management, our growing reserves, and our conservative policies. Again, they find us stable, they like our diversified economy, they like the fact that we had rapid debt amortization and they have seen our successful redevelopment efforts actually come to fruition, where they go to a lot of other communities and they just don't seem to manage to be able to get anything to the finish line. The one risk that they see with the City, again, is our above average debt burden. They think our debt is a little bit too high, however, they have noted that we do have the rapid amortization and we also have offsetting revenues. S&P likes the finance team, between Joanne, Kevin and myself we actually have over 80 years with the City. They like that, they know when we tell them something most likely it's going to actually come true. They like our very large and diversified tax base, strong financial position, and our debt management policies. Now they find our debt position to be manageable and mainly again it is because of the rapid debt retirement. The one risk that S&P sees is obviously economic. Moody's like the fact that Manchester is the economic center of the State. We have solid financial fiscal management and healthy reserves. Again, they feel we have a manageable debt position, but they feel that the City's wealth is not quite where it needs to be to get from the AA2 to a AA1. In the handouts that I provided you the first three sections are the latest, most recent rating agencies reports from each of the three rating agencies. This one of the areas that Jeff did some research for me and as you can see under Moody's, the City is in that lower category, but you're two notches from the top. Fitch you're in the middle category, and S&P you're in the middle category. What we did was we went out and looked at all of the communities with populations between 75,000 and 150,000 to kind of find out where Manchester fits in. As you can see it is a pretty elite category up there. A little background history on the debt that we currently have outstanding. We went back, these are all of the dead issues that are still open and are carrying balances and these graphs start at 12 o'clock, so this here are the debt that we issued in 1989 and you can follow them around and once you come around over here, this is the school debt that we just issues and then this is the one, the red one up here on the left, is the debt that we issued last, which would include the baseball stadium. Take that same debt service and actually lay it out and look at the purposes and I apologize for the abbreviations over here, but the full words would not fit. But again, you start at 12 o'clock, these are communications, bonds, these are bonds we issued for buildings, Fire, Police, cemetery, health, highway, bridges, this highway is more streets and sidewalks, this is solid waste, parking, parks, library, and you have to try real hard to see the library one on there, and these numbers are in thousands. Then almost 50 percent here is for school and you turn the corner and you've got elderly, economic development, housing, motorized equipment, you can't even see Manchester Transit Authority on there so you have to use your imagination, there's actually a line in here for

Manchester Transit Authority, and then the last ones here are reval. And all of these graphs again are in your handouts. One thing that does concern us is the actual dollar amount of some of the bonds that we're issuing. I went back and looked at these and 11 percent of our projects are actually $100,000 or less. 27 percent are between $100,000 and $250,000 and one of the problems that we have when we deal with the rating agencies is on one hand we're issuing $101 million and then on the other hand we're go out and tell them that we're going to bond $45,000 for a security system, and they kind of give you the odd look. If you take those same projects and actually look by dollar amount, the 11 percent on the other side actually on dollar amount represents only 1 percent of your total spending. So you're spending 11 percent of your time dealing with 1 percent of your dollars. And again, as you go around the clock you have 27 percent of the projects are only 4 percent of the dollars. If you take the current outstanding debt that the City has, and this does not count the enterprise funds, this is just general obligation debt, it does include all of the latest issues including the school issue. And you can see right now, what we've done is we've taken that debt, we've got the general obligation is in the blue, the fiscal year conversion bonds are in the yellow, which you can see this is the last year up here, and then you've got the pension obligation bonds layered on top of those. This spike here is obviously due to the school and you can see why the rating agencies like the fact of how we pay our debt off. This isn't fairly level, it's actually a pretty steep curve. Those of you who have been working on CIP, you know that we've told Bob MacKenzie and his staff that they roughly have about $10 million a year for the next five years and the Mayor has proposed $15.6 million over the two years and the other $4.4 million got put back into 2004 for Memorial. You'll actually notice here, and some of you may question why in 2004 we do have a projected, this is actually the landfill SRF that is coming on. It actually came on in 2004; we don't make our first payment until 2005. When you look though at how the City is actually paying the debt, again, the rating agencies are thrilled that we are not taking this here and throwing it towards the end and level, we actually do have declining debt. Again, what you have here is your general obligation with the fiscal year conversion bonds and the pension laid on top. Now as I noted earlier that the rating agencies are well aware of the fact that yes our debt may be a little bit high right now, especially if you look at 2005, but that does include some debt that we are getting paid back by outside sources. If you take this graph and you subtract out the sending towns, you can see how our debt dropped. You then back out school building aid, it drops a little bit more, and you back out the payments we're getting on the baseball, and it drops even more. So you can see that as we come out here the real difference is this fiscal year conversion bonds that we have that are going away. If you take that same graph, and I can actually show you those layers, you can see how all of these layers can peel off as those are all of the revenue sources coming in. Once we take the $10 million a year and layer that on top, that's really what your graph looks like, and again, if you walk through, you take out the sending towns, you take out the school building aid, and you take out the baseball, and again, you can see we've kind of been able to level this off. You do see these little spikes because those are the actual years we'll be issuing the debt. And again, that may change over time, but based for these graphs that's why you see those spikes. Again, we won't be issuing probably for a couple of years and this green here is the landfill. Many of you know, those of you who are new to the Board may not, the City does have some bond guidelines that we utilize to determine how much debt we can be adding to the City's books and I won't necessarily go through and read all of these because we'll go through the graph, but as we go through the first one is that we should be limiting our annual long term debt to our gross revenues to below 15 to 17 percent. That's the bar that we've set for ourselves. As you can see on this graph, we're well below that and these shaded areas over here, the 2004 we've got in a different shade and going out in the future years, this is the projected debt that we're adding on. You can see that the City doesn't have a problem with this guideline. The next guideline is that we try to limit the fluctuation of our debt service payments from year to year. Again, we have the bars here that we shouldn't exceed…we try to keep it under 10, we definitely shouldn't exceed 20, there's your school right there. School came in, but as you can see we pull it right down for the future years and we actually show decreases. The third guideline is our total bonded debt, and again, this does not include the enterprise funds. First our assessed valuations. We try to keep it under 12 percent of our assessed valuation. You can see in 2004 even with the school debt, we're still right at that time, and again, as we go out and add in the future debt, the goal is again obviously to try to bring it down even lower. And what I did with this one is I backed out the sending towns, the school building aid, and the baseball and as you can see we're actually well under that 12 percent. So again, on this one we're doing okay. I'm sorry, this one does include the enterprise and this one does not include the enterprise. Once we back out the enterprise, we now try to keep it to 6-7 percent, and now again, because the school is in this one, this is where we're having the problem. The rating agencies like to see us around 3 percent. So again, the goal is to kind of start inching back towards that. Now keep in mind that does include the school, it includes the stadium, so it includes all of those revenues. As I back those out, it's actually not that big of a problem. We can start bringing these down. As you do your reval, your assessed value hopefully will go up, which will raise that, and hopefully again as the reval comes in it will bring that back down. As I noted earlier all three of the rating agencies like the fact that the City pays off its debt on a rapid basis. With the introduction of the school bonds, it was the first time we brought 25-year debt into the general fund. We've used longer than 20 year debt when we did the airport and when we did the civic center and I believe when we did Water Works, we did longer as well. That was the first time we brought 25. Remember those earlier graphs, this is a rather large chunk, 39 percent of our debt that we issued the last 15 years is that school debt, and it does go out for the full 25 years. So this one is going to be a problem because we don't have repaid debt amortization. By bringing that out 25 years, this is one of those graphs where you actually want to be above the line and now we're below it. And this is the old stabilization of the tax rate. Back in the 1980s this used to be at $12.00 and then when we did the reval in the early 1990s, it got adjusted to the $3.00 and we've never adjusted it since, and every time you do the reval, it in essence should adjust right back to this number. So if you see here we're actually over the $3.00 number, but again, you back out the sending towns, school building aid, and baseball and it does drop you a little bit and get you closer. Again, a reval should again lower those bars. Your direct debt; this is your actual debt service payments as a percentage of your budget. We try to keep this under the 8 to 10 [percent]. As you can see, some of them are over, some of them are under; again, we're trying to bring this number back down. Now the rating agencies don't mind the fact that we go over as long as they know that our guidelines bring us back into play here. And as you can see, back in the late 1990s we went over and then we got it brought down again. We go up, bring it down. And you back out the sending towns, school building aid, and baseball, and it actually puts you right about where you want to be. This is the one that concerns us the most. This is our net bonded debt per capita. Again, you see the spike in 2004, that has to do mainly with school, and the rating agencies like you to be around $1,000…this is where Moody's has their problem, when I mentioned their issue with the City, it's wealth levels. The fact that we have $1,000 per capita is okay by them, but now that we're pushing $2,600 it's an issue and even when

Those three items it's still we're over $2,000. But as we move out to 2005 it gets us down to $1,800 and again, the goal is to bring us back down. There's not much we can do about this one with the exception of…this one is population driven. Again, in your package there's a copy of a report that's published by Fitch that lays out their 12 best management practices. When they are reviewing municipalities and issuing credit ratings, they have 12 items that they look for. The eight that are on this slide, we're all set with. We meet every one of these and they are thrilled to have us. We see these at every one of the rating agencies, these items, but Fitch does publish a report and it's in your package. It's the four on this page that need to be addressed. Pay-as-you-go capital funding policies, the 5-year CIP plan with operating costs. We do do a 5-year CIP plan but we tend not to spend a lot of time looking at the cost of what it is going to be to operate that plan once its been implemented and then the last two are really reporting awards that are put out by GFOA. When you look at the Fitch looks at these four, the top one they have as significant. They really look at that, they like communities to have a pay-as-you-go, the other three certainly influence their decision in their ratings, but they don't feel they're as significant. I can tell you we did apply for this award several years ago and it's really the civic center that has caused us to not get that award and mainly because we have a qualification as I think we've said when we've presented the audits in the past. We have a qualification on the civic center because the auditors just can't understand how the City got a $70 million asset with no debt on the books. What I'd like to do, as I mentioned earlier, I'd like to try to get a little conversation going on our debt policies here and focus on the pay-as-you-go. What pay-as-you-go financing or capital funding means is putting cash in your operating budget rather than issuing long term bonds. It's a simple as that. I won't bore you by reading this but this is right out of Fitch's report on why they believe that you need pay-as-you-go capital appropriations. There's actually two pages of that. The advantages of pay-as-you-go is there are savings I the interest costs and there's also savings in the issuance costs. Pay-as-you-go preserves your financial flexibility, in bad times you always have the ability to stop funding a pay-as-you-go where you can not stop making debt service payments. Obviously if you stop it and the economy swings back, they'd like to see you start it up again. It does give you some protections of your borrowing capacity, as you all know. We just went through these charts, you do have limited capacity and it gives you that flexibility again that if an opportunity does arise, you've got that borrowing capacity available to you. And obviously in Fitch's eyes, it enhances your credit quality. There are, however, some disadvantages to pay-as-you-go and you should be aware of those. There's always a tendency not to fund it because it's a large number and it's an easy number to pull out of a budget. As we've seen has happened in the past with the motorized equipment pay-as-you-go. There is the potential for intergenerational inequities and what that means there's the theory out there that if multiple generations are going to use an asset, multiple generations should pay for an asset, which is why when you build a school you go out and you issue debt and that debt get paid off over 20 or 25 years and as different generations move through your community, they are making payments via their property tax towards that debt service for that asset. And then again, getting back to the issue of you can fund, you fund, disadvantages, you could possibly have what they are terming lumpy capital expenditures. I put $1 million in one year and the next year I make it $200,000, and the next year I'm back up and that obviously is a problem. As I mentioned earlier one of the things that we're concerned about is the size of the projects that the City is issuing debt for. We would obviously prefer to see if you're going to use your debt, that you use your debt for the larger projects and go pay-as-you-go for the smaller projects. The other area that we have a concern is, is the life of the projects that we're issuing debt for. As you can, and maybe you can't because that's rather dark, I believe that says 18 percent of your projects only have a 5-year life. 23 percent of your projects have a 10-year life. In the back of the handout that we gave you, actually lists all of the projects that were components of each bond sale that the City has issued. So you can go through there and see which projects have 5 and 10-year lives and what you're going to find, even though it may not have been in every bond sale, you're going to see that those 5's and 10's are pretty much the same things over and over and over again. There's vehicles in there, there's computers in there, there's revals in there, and if you're going to have these reoccurring items, they are not of that one-time nature, it's not like building a school, the issue is why do we continue to bond these items and then just put them in the next year and bond it again. Again, this goes back to the dollar amounts. You can seize a lot of your bonds for actually very small dollar amounts. We're really only talking about 14 percent of what you're bonding. If you look at it over time, the blue are the 5-year bonds, the ugly green are your 10-year bonds, and the yellows are your 20. We did not put the 25-year bonds on here because it would have blown the chart away. But it's these 5's and 10's, and as you can see, every year, every time we do a bond issue, you've got those in there and these that we would like to get pulled out of here and make pay-as-you-go. The reason we'd like to do that is because by doing a 5-year bond, you're adding to the cost of that project 10 to 12 percent for interest, and this does not even include cost of issuance. And if you're going to keep bonding

Short life but we do go out and bond them. You're adding this 10 to 12 percent onto the cost of that and then you turn around and you rebond it again and you add another 10 to 12 percent. For 10-year projects you're actually adding 23 to 27 percent and the reason is the range is obviously we've seen different interest rate markets over a period of time. And then when you do a 20-year project you're actually adding 45 to 50 percent. The question came up at one of the Finance Committee meetings, I think it was last week, how much can we get for $1 million, what does it actually cost us. Right now if it's got a 5-year life, its $225,000, 10-year $125,000, and 20-year adds about $75,000 to debt service. Obviously if you add, just take the simple one, this one times 5, obviously that $1 million now costs you $1,125,000 for that 5-year asset, and again, these are the ones we'd like to do away with. So this is what we're proposing. The very last sheet in your books is a proposed ordinance, it's actually in the form of a resolution for pay-as-you-go, and we can get to that in a second. But we're actually looking for a policy statement going forward. We've got this in the form of a policy statement because we're talking about appropriating funds and we obviously can't commit future boards to appropriate in this fashion. But the thought that we've had, and we've had it for about 12 years now, since we did the fiscal year conversion bonds, is when the fiscal year conversion bonds go away after fiscal 2005, there was roughly about $3 million being carried by the School Department. We've used that to do the school renovation project and there's roughly about $3 million of debt service on the general fund side. What we're proposing going forward is leave that $3 million in the budget, take $1 million of that and use it on a pay-as-you-go basis for these short term assets like we have listed up here, like MER, technology and any other assets, maybe like security items, certainly revals would fall into that, use that $1 million as cash and start a pay-as-you-go program. Take the other $2 million and actually place it in this pay-as-you-go trust fund. Going forward, if you do that every year, going forward what you'll have is $1 million to take care of your vehicles, technology, those types of items, and you'll start to build a trust fund that eventually you won't need that $1 million on the pay-as-you-go and then you can move to another type of trust fund, maybe it's Parks maintenance, maybe it's the school music program. Who knows how you want to use those dollars, but we would get more on a pay-as-you-go basis, which would pull all of these items out of your bonds and give you more debt capacity, because every time you issue a 5-year bond as you see it hits the budget a lot harder than a 20-year bond does. So when we go out and we give you the $10 million a year, I'm making assumptions on how much of that is going to be 5's, 10's and 20's. Now obviously when I get the numbers from Planning, can adjust those, but right now I only have them from Planning for 2005 and I'm making assumptions for 2006, 2007, 2008 and 2009. If we can come back and say we're going to stop doing 5's and 10's, I can give you more than $10 million a year in those outer years. That's it. The resolution that is in the back of your handouts, the last section, you've seen these in the past. I know you just went through some of these with the school. It's a quirky name. It's actually called a non-capital reserve account. The Statutes when they talk capital reserve, they're talking about putting money aside to build a school, they're talking the real big projects, but there is 34:1-A talks about non-capital and then again that's to deal with the smaller things. You can set up a non-capital reserve fund for just about anything. We will take any questions that anybody has.

Alderman Roy stated on Page 5 of the presentation, the $100,000, the $250,000 level that counted for 36 percent…that 36 percent for under $250,000 amount that we bond, so you're saying you had $1 million that low life projects cost us $225,000 per million. What's the number? What does that 36 percent represent in total dollars?

Mr. Sherman answered about $15 million. Keep in mind that's since 1989.

Alderman Roy stated you said the assessed value about seven times, if we do a revaluation next year or 2006, how will that affect the ratings? You seem to indicate positive. Any dramatic affects? Any capacity increases?

Mr. Sherman answered one, I think they'll be capacity increases. Assuming again that we get some bump in the population. That's the debt per capita is the other one that has some concerns. It will help us on…do I think that's enough to bump us up a step? No. I don't think that's enough to bump us up from A+ to AAA. The one that I think it will help with the most, will be Moody's. Moody's sits there and they look at Manchester and our valuations are less than Nashua, and they have concerns about our wealth and our ability to afford this much debt. One thing that they do like, and again, they all did say is our diversity. We're not dependent on one industry. They look at our largest taxpayer and I think it's like 1.4 percent of our tax bill. It's Public Service, I believe. So they don't have a concern that somebody is going to shut down, lock their doors, and then all of a sudden we're going to have a big cash crunch, but certainly adding the valuation, they've seen our building permits. They know that we've got a nice steady increase in building permits and that type of thing, but as we all know we haven't reaped any benefit in our valuation line from Verizon yet. So they're kind of sitting back waiting on the sidelines as well to see what that bump is going to be.

Alderman Roy asked Randy, on Page 25 you started talking about the pay-as-you-go capital funding trust. If we were to not wait until the fiscal conversion are over with and fund that possibly to $1 million this fiscal year, the budget we're working on, what would that allow you to do as far as our capacity or what impact would that have on the City?

Mr. Sherman stated I'm trying to think what you have in the $15 million. I know there's some MER in the $15 million, I believe close to $2.5 million. There's some small projects in there like the impound lot, reval. If you pull those say $3 million worth of projects out of there, you probably could go up to maybe, I'm shooting from the hip, maybe $12 million a year and still have that same debt service string going out. And again, if I could then go out to the future years and pull out the 5-year items, certainly would give you more capacity.

Alderman Roy asked and everything that you mention except for the land purchase was something that you'd consider a life expectancy under 10 years?

Mr. Sherman answered correct. The only reason I did the impound lot is because it's $200,000, and it's paving.

Alderman DeVries stated when we look at the use of the fiscal year conversion funds and you said that initially if we use $1 million for our short life projects and dedicate the other two thirds or $2 million into a trust account that will be established, and at some point we will be able to fund that $1 million short term projects from the interest that we are getting from the trust fund. Can you project out at what point…how many years you expect until we get there?

Mr. Sherman answered actually no. To be honest with you, no. Bob MacKenzie asked us that same question this morning. It's a factor of the interest rates, certainly, it's a factor of whether you leave the interest in the account or if you decide to say okay I've got $1+ million, I'm going to draw some of that interest back out. But the other factor is, clearly I think for 2006, we clearly can spend that $1 million with vehicles. I know Diane Prew is screaming for upgraded equipment. I think over probably a fairly short period of time, you may not even need the full million to get on a real program, again, turning your vehicles over and that type of thing. It's just real hard to pin it. Our trust funds this year are up about 20 percent or so, but you turn the clock back 12 months an we were down 25 [percent]. So it's just real hard to target when that would be full. But clearly Highway has worked on like an MER program and if we can schedule that out and actually see when those vehicles are going to hit, then I think maybe you're talking five or six years before you could actually stop funding that, and then move onto something else. So I'm just saying that they get up to the $10 - $12 million mark and then maybe start using that $3 million in another area.

Alderman DeVries stated I haven't read the entire resolution or ordinance that you've put forward. Are you suggesting a cap within the ordinance?

Mr. Sherman answered no. I don't have one there and again…

Alderman DeVries asked so the best practice, if you would, would be to fund it to a proposed cap, which might be, if I just heard you, three or four years from now?

Mr. Sherman answered probably five or six to get it up there.

Alderman DeVries asked so fund it to $12 to $15 million and then let it continue to grow on its own?

Mr. Sherman stated and then hopefully you've got some earnings on top of that so it's actually larger. And you're right, then just use the earnings.

Alderman Lopez stated please go back to Page 14 on bond guidelines. Maybe you want to explain that again for me with the enterprise system and everything.

Mr. Sherman replied that's obviously not the one you wanted.

Alderman Lopez stated total bond debt versus assessed value.

Mr. Sherman asked you're on Page 14 in the binder?

Alderman Lopez answered yes. Could you explain that chart again for me please.

Mr. Sherman replied this actually has total bonded debt. When I say total bonded debt, that does not include the Airport's revenue bonds and it does not include Water Works revenue bonds. What would be included in here would be any EPD bonds that in essence we issue as general obligation bonds but EPD pays them. It would include anything we've issued for Parks Enterprise, because we issue those as general obligation but Parks pays for them. So those would be in here. And again, there are some older water bonds that are in there.

Alderman Lopez asked all of the school's?

Mr. Sherman answered all of the school's would be in there.

Alderman Lopez asked the stadium? All of them other than what you mentioned?

Mr. Sherman answered yes, those are all in there.

Alderman Lopez stated in reference to you made a comment a 5-year plan on CIP and operating, could you elaborate just a little bit more on that please.

Mr. Sherman answered for example take Cohas Fire Station…

Alderman Lopez interjected just let me clarify my question. We have a 5-year plan; department heads do run a 5-year plan. What's wrong with it?

Mr. Sherman answered what's wrong with it is when the rating agencies look at that plan they don't see that we actually had a true discussion on how much is it going to cost to operate that asset after you've funded it. So again, with Cohas Fire Station, they can see it's in the plan, they see it's been in the plan for a number of years, but how much was it going to cost you? Can you afford to operate it once you've built it? Clearly when you get into things like streets that's not an issue.

Alderman Lopez stated I think that's been a discussion around here since I've been here is when we do bond things, I think one of the discussions now is the Library. What's the operating cost going to be and we should know those factors and I agree with what you're saying and sometimes its very difficult, people say well I don't know what it's going to be. Well I think there's ways to figure that out and I think that you're absolutely right on a long range planning and I remember a couple of years ago one Alderman even said before we bond anything, we should know what the operating costs should be and I agree with that statement. Explain to me in reference to another trust fund that you want to create money in. I understand where you want cash, but I'm trying to associate it with, maybe I shouldn't associate it with the onetime account.

Mr. Sherman replied the onetime account that we have set up is funded by onetime revenues that are coming in, so it's not an appropriated amount that you're putting in there. That's the first distinction between the two. And it's really there, you can do two things with it. One is to pay for onetime capital items, so I know people try to tap it for vehicles, well vehicles aren't a onetime thing. You can't tap it for the technology issues, that's not a onetime thing. It's really there again, and a good example is what the Mayor has in this year's budget, is the Hands Across the Merrimack. That's a onetime capital item, you take that cash and put it towards that project. It's not going to happen again. The other thing you can use that for is to actually segregate part of those funds and then draw down on the earnings to pay for an expense that is reoccurring. So again, if you wanted to take that, and again, for some this example keeps popping up, if wanted to take that set aside money and then always fund the athletic program over the schools, that's all I was going to do with that is fund athletic equipment. That's what that onetime fund comes in. What we're looking for here is to set up a trust fund to pay for all of those items that are recurring, but still are of a capital type nature, but they're those short-term projects that really don't meeting the bonding criteria that you'd like to have. They are either not large enough or they really don't have that intergeneration life span that we'd like to see in bonding.

Alderman Lopez asked could we or would it be advisable to take something like the onetime account and rework the ordinance so that a percentage of that could be for capital and a percentage of that could be for those necessity items like we run into this year like Police vehicles and MER accounts and all of that stuff. So where percentages could be worked in instead having two accounts and just rework that ordinance to make sure that we can use money out of there and leave money in there at the same time.

Mr. Sherman answered you could but I wouldn't recommend it and here is why. The revenues that went into that account only occurred once. Now if you use that onetime revenue to fund a reoccurring expense, what happens the next time you've got to fund it. So if I get this one sale of an asset, I sell Hanover Street lot there that you're selling to the Housing Authority, use that money for Police cruisers. How do I fund those cruisers two years from now? That's why we said it's a onetime revenue, we'll use it for a onetime type of expense.

Alderman Lopez asked and on the trust fund, I'm sure it would go to committee and all of that, but just to get my mind thinking a little bit, how much would you say that we should put into this trust fund in a period of time and then start using it?

Mr. Sherman answered I would never recommend that you draw down on the principle unless there was some extreme circumstances for you to have to do that. Drawing down on the earnings, I would think you could do right away. Now again, we would like to see you build that up, because if you put in $2 million and let's say it earns just $200,000, you turn around and pull that $200,000 out, well now you're still at $2 million. The whole idea is to get this account large enough so that the earnings are sufficient to not have to fund the million dollars on the other side.

Alderman Lopez stated I remember a conversation and maybe you can help me with this along this line, was it 2007 we were going to have $500,000 or something not paying bonds? I think Kevin mentioned something along that line, that we would have $500,000, that ready to buy things if we wanted to instead of paying bonds. I can't think of the right word.

Mr. Sherman asked it was the fiscal year money? He might have said 2007, but it's 2006. Maybe that's what he was thinking.

Alderman Lopez asked so that number would be is it $5 million or $500,000?

Mr. Sherman answered the debt is $3 million in the general fund, and maybe if you're going back a little bit further into history, maybe what Kevin was referring to at that point was between City and school, we would have that large amount.

Alderman Lopez asked and that equalization stays on the school side?

Mr. Sherman answered right.

Alderman Porter asked Randy, regarding this graph here, shouldn't exceed 12 percent. What is the total bonded debt that you're referring to here? What is it presently?

Mr. Sherman asked in million of dollars?

Alderman Porter replied this slide shows that the total bonded debt shouldn't exceed 12 percent of the assessed value, is that correct?

Mr. Sherman answered correct.

Alderman Porter asked now that's the gross assessed value including tax exempt properties or just taxable properties?

Mr. Sherman answered this is just taxable properties.

Alderman Porter stated I'm just trying to get it so I understand the math. How much is the bonded debt presently? That reflects somewhere around 11 percent or a little over 11 percent of the assessed value. Is that correct?

Mr. Sherman answered this particular graph is without the sending towns and the school building aid.

Alderman Porter asked but if we were to look at the assessed value of $5.233 billion as the projection was for 2004. If you take 11 percent of that…it would be $575 million. I was just trying to figure out…are we up to $575 million of bonded debt?

Mr. Sherman replied this graph isn't what you need because this doesn't include the Enterprise funds.

Alderman Porter stated I'm simply trying to understand the math.

Mr. Sherman stated I can give you all of the numbers behind those graphs. I can provide that to the Board.

Alderman Porter stated one follow up if I may. On the trust, let's say you put $1 million away. You talked about the earnings on that $1 million. At today's return. What would you say, 2.5 or 3 percent would be reasonable?

Kevin Clougherty, Finance Officer, replied last year the trustees got 22 percent on the trust funds.

Alderman Porter stated on trust funds.

Mr. Sherman stated right. We're looking to put this into the trust funds.

Mr. Clougherty added under the management of the Trustees of the Trust Funds.

Alderman Porter asked and what did they invest in to get that?

Mr. Clougherty answered they have a structured portfolio that's based on financial advice.

Alderman Porter asked if you were doing that, then obviously that's going to make a difference. That could be $200,000. Now are you saying that what we would do is go out and anticipate that for a period of 10 years and find out how much you could borrow that would amortize out at $200,000 a year?

Mr. Sherman answered no. We wouldn't use that earnings out of the trust fund to pay for debt, because the earnings out of the trust funds are for cash.

Mr. Clougherty stated Alderman Porter, if you think about it, if we have $3 million in this year's budget that we've got to pay for debt service, next year you don't have that $3 million. So you put $2 million into the trust fund and you spend $1 million on top of what you're spending now for your vehicles and computers and do the same thing next year. After five years you've got $10 million in that fund and that doesn't include any earnings. That's just the principle you've put in over five years, and if your earning dollars, then you're going to get up to a point where you're going to make, even at the 7 percent range, $750,000 or $1 million, then you can take it and say okay now instead of putting the $2 million into our capital reserve for vehicles and computers, now we'll put the $2 million, go out another 5 years, in 10 years you've got two huge funds.

Alderman Porter stated I can see the benefit I was just trying to figure the specifics.

Alderman Shea stated we've been discussing appropriating, and I know many people have brought that up, are we within our bounds to say if we were to suggest a certain amount, like $1 million or $2 million and then my colleague on my right has indicated we do use certain tax stabilization funds in order to reduce taxes, I don't know how that plays into this scenario as well. Whether we should continue to do that or whether that money could be more prudently applied to a capital trust fund. Are these options…in other words, in order for the Alderman Board and the Mayor to bring up this particular trust fund to a level of $10 or $12 million, it would have to either be done by increments of so much per budgetary year, or it would have to be done as it were over the course of whatever years. Are there any kind of benefits to examine which option is more beneficial to the City or can you come back with a recommendation. We can establish this and then just say we'll give you $50,000 this year. Practicality is obviously something we have to employ here in order to make it beneficial.

Mr. Sherman replied that's why on this last slide we can not commit future boards to that appropriation. That's why we're asking that that be more I the form of a policy statement going forward. We think in essence that rather than use this $3 million for debt service, is what we've been using it for, is that we would use these funds for the pay-as-you-go and start to convert. It's always difficult to go from a situation where you're incurring debt to a situation to where you're paying cash. It's no different at the City level than it is on a personal level, trying to start paying for everything in cash while you're still paying off your credit cards. This is a unique opportunity where we've been carrying so much debt for this fiscal year conversion, and it's not going away, and it's an opportunity that we've got to start making that conversion over.

Alderman Shea stated let me draw a comparison. In one's personal life if one has a credit card and one charges but pays off that without any kind of penalty, obviously they're benefiting from that kind of a situation to an extent, because they're using somebody else's money to benefit for 29 days, the 30th day they pay it off. But one has to have the resources to pay that off and that's where the difficulty is. If, for instance, we had as it were $10 million set aside and we could draw off that, as it were here, we would be able to benefit from what you're saying, the interest on that particular money. The problem is how do we go about in the most prudent way to build up that fund? That's really the key question. It's not so much that we shouldn't do it, it's how do we go about doing it and that's what we're looking to you folks for.

Mr. Sherman replied that's the recommendation that we're bringing forth tonight, is starting in 2006 and not 2005, but this would be starting in 2006, when your debt service has that drop off, because the fiscal year is coming out, get disciplined and start saying okay we're going to take care of our problems that we had with vehicles and computers and those things, so we're going to spend some money on those because that's been an easy area to cut. If you go through Diane Prew's budget for next year, there's no equipment in there and we're falling behind. And then take that other $2 million that's already in your 2005 budget, so it's not like we're adding it up to the 2006 budget, but it's already in your 2005, and take that number and just slide it over into the trust.

Mr. Clougherty added this would never be at the expense of the other programs that you've already got established. You still want to have the stabilization account, because you're going to use that. This year it's going to help you. You're going to look at having the other rainy day funds. Those all have a specific purpose and it's like you use the analogy of the credit card, you have a credit card, you have your mortgage, you have your bank account, all of these are designed for a particular purpose and they all have to have a different discipline. So this wouldn't be at the expense of those, we would still encourage those to stay in place because those are going to help you as well down the road.

Alderman Shea asked what you're saying is, in 2006 we're going to have a certain amount of money normally applied to debt service that we will no longer apply to debt service to the tune of about $3 million? So take that money and use that?

Mr. Clougherty answered correct. Use part of it for the trust fund and $1 million.

Alderman Shea stated as Chairman of the Board I'd like to call on the Mayor.

Mayor Baines stated I'm glad you spent some time clarifying that because that's exactly what we were talking about. We were talking about this during our phase of the budget process, if we could begin looking ahead and looking at an opportunity to set some money aside, really plan for the future, and enable us to address those issues on a long term basis, because we just have not had the ability to do it. So I think it's something worthy of consideration. My suggestion would be that at a certain point this evening sooner than later, that this should be referred I believe to the Committee on Administration. Carol that kind of an issue, the resolution would go to the Committee on Administration, I believe?

Deputy City Clerk Johnson replied yes.

Mayor Baines stated so at some point in time we would take a motion to refer this to the Committee on Administration and we can continue some discussion if you want.

Alderman Thibault moved to refer to the Committee on Administration the establishment of a trust fund and a pay-as-you-go fund in 2006 from monies that would be available after payoff of the fiscal year conversion bonds. Alderman Lopez duly seconded the motion.

Alderman Porter asked when would this initial amount of money be appropriated? In the 2005 budget or the 2006 budget?

Mr. Sherman answered the 2006 budget?

Alderman Roy asked Randy, is there anything that would prohibit it being done in 2005 if funds were available?

Mr. Sherman answered not if funds are available.

Alderman DeVries asked Randy, the past several years it looks like since approximately 1998 we've been spending for those short term projects, it looks like about $3 million a year? For the 5-year bonding? I'm on Page 24.

Mr. Sherman answered yes and keep in mind these are years that we issued the bonds. So this isn't one year and two years and three years, this is…there maybe be a couple of budgets in each one of these bonds. But you're right…

Alderman DeVries interjected where I'm headed is I see the trend that we spend about $3 million a year on that, and then we have fiscal year conversion coming in, retirings, so 2006 there would be about $3 million available. What I'm struggling with is what we're really asking the taxpayers is to continue the tax rate basically flat assuming they continue to pay the $3 million and that we put it into a very wise and very fiscally sound plan for the future. But I just would like to see when this comes through at committee, I'd like to see what the affects would be for the tax rate should we choose not to go this way and instead choose to do the right thing, rather than increase spending, but to use this to replace prior spending for short terms projects. To see the comparative of what that is going to do with our tax rate, because it is a difficult decision that we will have to make. It is a sound decision for us to make for the future but what we need to weigh it against is the current struggles of the taxpayers.

Mr. Sherman replied keep in mind, on an annual basis you will have to make the decision of whether you fund it or don't fund it. This isn't a onetime decision. The decision is to set up the trust fund; the funding it question really doesn't come until next April, May and June.

Mayor Baines stated that's right and every single Board would have to make that decision every single year, but we would have established a mechanism that this Board if we so desire to set some process in place for some fiscal stability dealing with the issues that have been outlined by the Finance Department.

Alderman DeVries asked though if we do establish the ordinance and the mechanism for this to happen and choose not to fund it in a given year, will that have a greater impact on our credit ratings than if we have not gone down that road at all.

Mr. Clougherty answered it depends on the circumstances at the time. As Randy has showed you tonight, there's a lot of factors that go into the credit rating and if you look at some of the guidelines, we're over now. You would think we really should be under, but right now if you're over on some of those guidelines, the rating agencies actually see that as positive because they see that you recognize that this is a period of extremely low debt, interest. So when you look at that, depending on the circumstances at that time, certainly if there is some type of a overriding issue that you can explain, they might forgive you one year as long as your going to go back into the sequence over the next year. But there always has to be that long-term commitment to the plan once you put the ordinance in place. If you don't put your $2 million every year, are they going to down grade you? No. But if you start not to be putting in significant amounts, then they start to question is there a commitment to this sound principle or not. So I think the answer to your question is on each year, each Board is going to have to make some hard decisions and evaluate what do they want to say to the credit markets in terms of how they're planning for the future. And that's what you're really doing. You're starting through all of these different resolutions and trust funds a dialog with the credit markets and the investors saying you know we're making some commitments to the future and we're going to stick to them and that conversation may have some ups and down as you're going. But as long as you're committed to the overall plan, and don't vary significantly, you should be okay.

Alderman DeVries stated another point that I would like to see at committee. The Director of Planning, Bob MacKenzie, and I had a brief sideline conversation and I really would like to see how this is going to play into the rest of the CIP long term projects when it comes through committee, so that we can make it an educated decision.

Mayor Baines called for a vote on the motion. There being none opposed, the motion carried.

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

A True Record. Attest.

Clerk of Committee