

Budget Committee Approved Minutes November 26, 2012

BUDGET COMMITTEE
NOVEMBER 26, 2012 6:30 P.M.
COUNCIL CHAMBERS

MEMBERS PRESENT:

Chairman Brian Hart, Vice Chairman Ellen Snyder, Rose-Anne Kwaks, Amy Thompson, Jack Fitzgibbon (excused at 7:27 p.m.), Dana Glennon, Russ Simon, Judy Ryan, School Board Representative Linda Mantegani (6:34 p.m.), Town Council Representative Gary Levy, Drew Kiefaber

Chairman Hart called the meeting to order at 6:30 p.m., followed by the Pledge of Allegiance.

1. EFFICIENCIES COMMITTEE – REPORT OF FINDINGS/RECOMMENDATIONS: Chairman Bob Coffey,

Members Al Zink and Mike LaBranche

Committee member Al Zink gave an overview of the history and initial goals of this advisory committee to identify opportunities for cooperation between the town and school. The priorities were identified as combining finance functions, health insurance plans and facilities management. Although those goals had not been fulfilled, the town had agreed to present its budget in March with the school, and this coming March there will be a joint deliberative session. Mr. Zink reported that the Committee was evaluating its future role, and had concluded that the Budget Committee, as the only body which dealt with both the school and town budgets, should require the town and school to prepare 5 year financial forecasts showing the impact on the future tax rate.

Committee Chairman Bob Coffey presented a two page spread sheet depicting his actual taxes from 1999 through 2012, and a five- year, worst-case scenario forecast of his taxes and fees based on the past average annual increase of about 5%. The forecast figures did not include possible warrant articles. Chairman Hart stated that the past, actual tax bills did incorporate warrant articles. Mr. Coffey said some were tax-based and some fee-based, and in his forecast he was looking at a combination of taxes and fees he could be assessed by the community of Newmarket. He said the forecast was his perspective and should be considered as an illustration. The town and school finance departments could provide the detailed facts. He said his intent was to look beyond past expenditures and project the impact of future expenditures on the community for more informed decision making.

Mr. Zink said he hoped they would not focus on the specific numbers, but on the Efficiency Committee's conclusion that the Budget Committee require the school and town to prepare five-year impact forecasts which would be combined. After some discussion, in which many members approved of the idea, it was determined that the Budget Committee does not have the authority to require this. However, the Town Council and School Board could request these forecasts from their administrators. By charter and state statute, Newmarket does not have one body with the authority to ensure that the town and school work together. This has frustrated the work and focus of the Efficiency Committee and interested community members. Ms. Kwaks said that in her understanding, they had come to the Budget Committee as a last resort and she appreciated the value of forecasting as a tool they should have available. There was a discussion of the goal of combined cost-effective health insurance for the town and school, and while this has not been realized, there are plans to attempt an RFP for both groups.

Chairman Hart said the projection included figures over which they had no control, and it was inaccurate to assume that they would receive state or federal monies at the same level they had. He pointed out that the figure presented for a school did not include any state money. Mr. Coffey said the projection was an illustration of what might happen. Mr. LaBranche said the purpose of their being there was to bring the Budget Committee up to speed on what the Efficiency

Committee was doing and to ask for help. He emphasized that services would suffer if some changes were not made. It was pointed out that the Town Council and School Board would be the ones to implement changes. Councilor Levy said that even if the Budget Committee decided to cut items, the Town and Council and School Board could reinstate them. In turn, the budget could be adjusted at the deliberative session, which is the final authority on accepting the total budget figure. The Budget Committee's only authority is in cutting items, which in turn could force decisions.

Town Administrator Fournier pointed out that there were 2 administrators in the community, and that there were many statutory hurdles that prevented the town and school from working together. He and Superintendent of School Hayes had been holding discussions on cooperative efforts to save money. He said their goal was to have budgets passed that would be productive for the community. He reiterated that the Budget Committee was the only function that dealt with the two independent bodies. Committee members expressed their appreciation of the work done by the Efficiency Committee. Committee Vice Chairman Snyder asked for input as to whether the Efficiency Committee should continue to meet. Superintendent of Schools Hayes said that the joint meeting in June had brought the discussions to the level where decisions could be made, and that the Chairmen of the Town Council and School Board were meeting. He had asked Town Administrator Fournier to come up with a model for a five-year forecast, and intended to use that for the school figures so they would be consistent. He felt progress was being made. Town Administrator Fournier felt the success of an Efficiency Committee depended in part on buy-in from the town and school. He said they had to look at the institutions that kept these as separate bodies, and look at everything that affected the community as a whole. He felt the next step should be to have discussions as to where they wanted to be, and to make sure they had the supporting institutions.

Dana Glennon suggested that the town and school representatives relate the gist of their conversations and progress to the Efficiency Committee. It was felt this would alleviate some of their frustration. Committee Vice Chairman Snyder thought that perhaps the Efficiency Committee could take a step back and look at the structure of the town. Councilor Levy said that his understanding of combining health insurance was to have commensurate cost and benefit programs for both the town and school. This was beyond the authority of the Budget Committee, and he realized that there were also two unions involved.

Chairman Hart said the intent of the agenda was to have an overview of the Efficiency Committee report and of the recently set tax rate and the town and school proposed budgets. The next 2 and possibly 3 meetings will concern the town budget and after that is complete, they will discuss the school budget. He asked that the members reserve detailed questions and discussion for those meetings. Vice Chairman Snyder will chair the next meeting, and he asked if anyone could not attend any meeting to let either of them know.

2 & 3 OVERVIEW AND PRESENTATION OF 2012-2013 TAX RATE; OVERVIEW AND PRESENTATION

OF 2013-2014 TOWN COUNCIL PROPOSED BUDGET: Town Administrator Steve Fournier

Administrator Fournier illustrated his handout with a power point presentation. The current tax rate is final at \$23.67, with the town's share at \$6.07 or 25.64% of the total. Local school is \$14.12 or 59.65%, state school is \$2.45 or 10.35% and county is set at \$1.03 or 4.35%. The rate is lower than last year, but higher than in 2010. Town valuation is slightly down from the previous year which affects the tax rate as it is set per thousand. A statistical revaluation will be done next year. The full impact in terms of assessed value of the mill development project will take place in 2 to 3 years. The net town appropriation is \$4,517,119 which is determined by subtracting revenues from gross appropriations and adding in overlays and war service credits. The school tax effort is \$10,492,953, the state education tax amounts to \$1,806,155 and the county tax is \$762,044. The total for all 4 is \$17,403,271, which if divided by the town valuation per thousand does not equal the \$23.67 rate. This is because the state does not tax utilities for the state school portion. Also, the Town Council used \$486,000 from fund balance, \$136,000 of which was from reserved fund balance. The remaining \$1.2M in fund balance represents about 6% against total gross appropriations, which is at the low end of the DRA recommendation of 5 – 10%. Reserved fund balance refers to surpluses that have a purpose, while unreserved fund balance can be used to reduce the tax rate or fund capital projects. The Council used \$350,000 to reduce the tax rate this year. The goal is to work toward having level tax rates and not expend fund balance to the bottom line. While he did not agree with over-budgeting, he said there still had to be sufficient funds that could be transferred to cover unanticipated expenses. The budget is built for expenses that will occur almost 2 years out.

Town Administrator Fournier included July economic indicators in his presentation: the CPI in Boston was at .8%, and the unemployment rate for Newmarket was 4.6% against the national average of 8.6%. The Town Council approved 2014 budget is \$9,158,403 for a 1% increase of \$90,360. The revenue budget passed by the Council did not include the

\$350K to be used from fund balance. The town budget is broken down into four funds: the General Fund budget is at \$6,217,577 or 68% of the total; special funds, including solid waste, library and recreation total \$1,138,209 or 12%; the Water Fund is at \$848,597 and the Wastewater Fund at \$954,019 and together total 20%. The largest amount of the budget increase is \$135,579 for retirement as set by the NH Retirement System. The total is shared between the General Fund (\$124,152), water (\$4,325) and sewer (\$7,102). There will be a \$40,000 contribution to the Town Revaluation Capital Reserve Fund and an amount of \$50,000 to establish a pool for one-time merit payments to employees after the new budget year starts. These funds will probably not be used for a year, and after an evaluation process is established. The Council will be involved in setting the goals. The total increase to information technology (IT) of \$15,000 is made up of \$10,000 for computer equipment, which had come from the Capital Reserve Fund, and \$5,000 for Channel 13 camera equipment. Fire radio replacement will cost \$17,500, the Town Administrator's agreed upon salary will be \$11,920 higher than that of the previous Administrator, codification of Ordinances, required by Town Charter, is expected to cost \$12,000 and legal fees were increased by \$25,000 to be in line with past actual expenditures.

There were decreases of \$23,696 in DPW salaries because of a new hire, \$131,241 in health insurance found by reviewing actual employees and plans with assessed rates. Town Administrator Fournier suggested establishing a Healthcare Stabilization Capital Reserve Fund to handle fluctuations in costs due to employee changes. Welfare was reduced by \$49,000 based on actual expenditures. The town is anticipating revenues of \$4,696,369 by the end of FY2014. Revenues for FY2013 are set at \$4,874,499, about \$200,000 higher. This is where the amount used from fund balance is shown, because the budget for fund balance is part of the revenue figure. He said the Council can revise its revenue figures if it wants. The town does expect slight increases in revenues from motor vehicle registrations and building permits. Overall, the town would need additional revenue of \$200,000 to realize a 0% tax increase.

Town Administrator Fournier's report included 2 proposed warrant articles, neither of which would affect the tax rate. A \$3,370,250 bond for the development of the MacIntosh Well would impact the water rates. However, it was understood that the funds for payment could be handled within the current water rates, as they had gradually budgeted for this. Town Administrator Fournier will check on this, as this would be an additional selling point to the voters. The warrant for the transfer of \$1,224,000 from reserved fund balance to the Fire/Public Works Building Capital Project Fund would clear up its paper deficit in the town's general ledger. There also would be no impact to the town's unreserved fund balance. There was a discussion of the history behind this issue. The alternative would be to continue taking \$136,000 from reserved fund balance every year toward the paper deficit, for a net gain/loss of zero. In addition he anticipated the possibility of a warrant article for a wastewater treatment facility and another for a collective bargaining agreement with the Police Union.

4. OVERVIEW AND PRESENTATION OF 2013-2014 SCHOOL BOARD PROPOSED BUDGET: Jim Hayes

The School Board had approved its budget on November 15, 2012. Superintendent Hayes said that the budget was organized by cost center and, except for technology, programs had level budgets. Food service is not part of the general operating budget as it is self-funded. However, it was included with the budget as Committee members had asked about it. It was pointed out that revenues were not included in the report at this time. Savings in health insurance were not included as teacher negotiations were ongoing, and Dr. Hayes believed that there was linkage between health insurance and the rest of the contract.

Page 3 of the report covered basic assumptions in place for projecting expenses. Teacher salaries were set at the same level, with the exception of column or step increases, as a collective bargaining agreement had not been adopted. Should an agreement be reached, it will be presented as a warrant article. Ms. Kwaks asked that the total amount for the column moves in the present year be given to the Committee. The salaries for classified staff showed an increase of 1%, as agreed to by the School Board. Salaries for those with continuing individual contracts are set at the FY2013 level, but there is an amount set aside for performance-based payment in the 2320-0370 Negotiations line item. Teaching positions that are grant-funded are included for informational purposes with the best estimate of amounts, even though they are not a part of the district budget. The Sick Day Buy Back benefit allows employees to buy back up to seven days per year of unused sick time after a certain amount of time has elapsed at the substitute pay rate of \$75. The budget includes the current health insurance plan with a projected increase of 5%. Since approval, the actual figure has been received and the increase is set at 0.5%. Ms. Kwaks asked for the health insurance costs for a single person and for a family according to the type of plan. School Financial Director Christine Blouin will get this information for the Committee.

Dental insurance will increase by 1.2%, but life insurance, long term disability, the Employee Assistance Program and FICA did not increase. Contributions to the NH Retirement System show a significant increase of 25% for teachers and 22% for classified staff. Unemployment insurance more than doubled this year to 1.5% of the first \$14,000 of salary from

0.7%. This reflects usage and the overall unemployment rate. The school had received a credit towards workers compensation and the FY2013 budget had been revised down from .30% of salary to zero. Dr. Hayes said the funds have been transferred to cover shortfalls in other accounts. Ms. Kwaks asked for the exact dollar amount rather than percentages, a reporting of where funds have been transferred to and from, and the difference in dollars for increases and decreases not just for this item, but for all accounts. Dr. Hayes said he would get that information.

Page 4 of the report summarized expense comparisons between the FY2012 budget and actuals; the FY2013 approved and revised budget and the proposed FY2014 budget. The comparisons were broken down into general functions of the school system and then into specific objects and benefits. Initially, the increase from the FY2013 revised budget and the proposed FY2014 budget had shown an increase of 4.93%. This had been reduced to 2.84%, meaning the proposed budget will increase from \$14,434,132 to \$14,843,617 for a difference of \$409,485. The largest increase, of more than \$200,000, is for retirement. There followed a discussion of pre-school. The federal government requires pre-school for students with identified disabilities at 3 years old. This is offset by tuition paid by other students not involved in the special education program. With an increase of special education students, there are fewer openings for those paying tuition.

Page 5 of the report shows objects in the budget in a pie chart. Salaries (54%) and benefits (27%) total 81% of the budget. Of the items driving the 2.84% increase in the budget, many are outside the direct control of the district, such as retirement and fuel oil. There was a discussion of the contract with EarthLink for telephone and internet service, which they had found to be very expensive at \$60,000 per year. There is more than a year left on the three-year contract, and they had found it was not possible to break it sooner than the ending date. There will be a future discussion on how the district initially entered into the contract. The district also has a contract with Comcast for \$200 per month to provide the necessary bandwidth. The school's electricity increase of 5% represents the share it expects to pay through a discounted municipal rate with PNE, which purchases its power through PSNH. The school is currently locked in at \$3.30 per gallon for fuel oil and had budgeted \$2.45 a gallon. The lock-in was decided when the price was at \$3.52 per gallon. Next year, the town and school will prepare a joint RFP, and the amount for fuel in FY2014 is budgeted at \$3.50 per gallon. Tuition to Seacoast School of Technology is set by the school and the town is now responsible for tuition for those Newmarket residents who had attended charter schools. Tuition for out-of-district special education placements is set by the various schools. New Hampshire retirement obligations had been discussed earlier, but Dr. Hayes stated that the rate is set by the state's projection of return on investments, which it expects to be 7.5%. It is expected that the town's share of retirement will continue to increase in the future.

Increases for technology were both in the operating budget and in a proposed warrant article. Dr. Hayes said that many of the computers were between 5 to 10 years old and needing updating. In addition there was a need for more computers. Page 8 showed adjustments to the original proposed budget to arrive at the revised budget the School Board had approved. He said they had started with level programs except for technology. The largest revision was in staffing, and the equivalent of 4.5 positions had been reduced either through cuts or consolidation. Finance Director Blouin will provide a complete staffing roster including teachers, administrators/consultants and classified personnel. Councilor Levy pointed out that the benefits could exceed 50% of some salaries. Chairman Hart asked for information on the under-funded liability in respect to severance, and if the town should establish a severance fund that could be funded by unexpended balance as a protection against the future. Dr. Hayes said they had been working on these projections. Mr. Glennon asked what Newmarket paid for its football team to play in Epping. Ms. Blouin said a contract for \$10,000 had just been signed, and it included all expenses. Councilor Levy asked if the school could put together a one or two page synopsis of actual FY2012 expenditures, the present FY2013 budget and the proposed budget showing increases and decreases across the board. Dr. Hayes that would be fairly simple, as it would include everything except salaries and benefits, which were still subject to negotiations. Programs, with the exception of technology, were level funded. The synopsis can be arranged in a similar way to page 4 of the budget.

Dr. Hayes presented an overview of his draft of warrant articles he expected to bring before the School Board. Article 1 asked for approval of the operating budget. Article 2, for the fire and life safety program, had a dual purpose so that funds could be used for either an existing structure or a new one without a subsequent vote. Article 3 was for the \$130,000 for technology that was not in the operating budget. Article 4 was included for engineering and architectural fees for the possible continuing study of a new building. Article 5 asked for approval of a collective bargaining agreement, and was backed up by Article 6, which allowed the School Board to call a special school district meeting for reconsideration in case of defeat. Articles 7, 8 and 9 address how a possible surplus should be used. Article 10 would ask for a Capital Reserve Fund for energy. Article 11 is based on a recent state decision which allows schools to set up a fund equal to 2.5% of the current fiscal year assessment or operating budget to use for emergencies, with excess revenues above that being used to reduce the tax rate. Article 12 sets a policy for accepting gifts up to \$5,000 to the school. Article 14 asks for voter approval to include tax impact information in warrant articles. Article 15 asks for voter approval for the school to continue discussions with Oyster River.

5. CONFIRMATION OF NEXT MEETINGS AND SCHEDULE

Monday, December 3rd and 10th: discussion of town budget

Saturday, December 15th: ½ day meeting to discuss town budget or begin the school budget

Monday, December 17th: school budget

Town Administrator Fournier and Superintendent Hayes will prepare a list of departments for each meeting.

Early January: possible meeting as yet unscheduled

The school and town budgets are due on January 13th, and the warrant articles have to be posted by January 28th. The last date allowable for the Budget Committee's public hearing is January 15th.

Ms. Kwaks reviewed the requests she had made for further information from the school department:

1. Total dollar amount of column moves on page 3
2. Dollar amount of and reason for money transferred in and out of accounts on page 3, item 14
3. A copy of the consultant's analysis of the RFP and bids for health insurance (she will review in the office)
4. The premium costs for different health insurance plans
5. The total school staff population

The Special Needs Capital Reserve Fund has a cap of \$250,000. The other three funds have no cap. Page 53 of the budget lists the amounts in each of these funds. Dr. Hayes said it would be considered an unfair labor practice for him to discuss health benefits or any benefits while the teachers' union was in negotiations.

Chairman Hart adjourned the meeting at 9:20 p.m.

Respectfully submitted,

TOWN OF NEWMARKET, NEW HAMPSHIRE
BUDGET COMMITTEE

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Respectfully submitted,

Ellen Adlington,

Recording Secretary

NEWMARKET, NEW HAMPSHIRE