

budget Committee Minutes June 25, 2012

NEWMARKET BUDGET COMMITTEE MEETING
MONDAY, JUNE 25, 2012
6:30 P.M. COUNCIL CHAMBERS
APPROVED MINUTES

MEMBERS PRESENT:

Chairman Brian Hart, Vice Chairman Ellen Snyder, Rose-Anne Kwaks, Amy Thompson, Jack Fitzgibbon, Dana Glennon, Russ Simon, Judy Ryan, School Board Representative Linda Mantegani, Town Council Representative Gary Levy

EXCUSED:

Drew Kiefaber

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

1. UPDATE ON SCHOOL FY2012 BUDGET VERSUS ACTUAL THROUGH MAY 31ST

Joan Liporto presented her reports that the Committee had received in the packet. She stressed that they still had two more payroll periods, summer pay for teachers, FICA and utility bills to cover before the end of the fiscal year. At the School Board meeting of June 21st, she had received approval to tap into the Maintenance and Special Education Trusts up to a limit of \$100K each. The Maintenance Trust currently has \$107K and the Special Ed Trust, \$250K. The school had over \$180K in ceiling repairs and experienced an additional \$150K in tuition-out special education expenditures in large part because of children moving into the district after the budget had been set.

A budget freeze was implemented in February when the ceilings had to be redone. Server problems had cost the district between \$10 and \$12K. They had made staff cuts last year after the budget had passed based on anticipated percentage contributions to the state's retirement. They did not add the staff back in. They had some extra money when the state reduced the percentage towns had to pay into retirement. There was no warrant article to add any surplus money to the trusts for next year. Ms. Kwaks asked about the cuts, and Ms. Liporto said they totaled nearly \$286K last year and involved staff. Ms. Kwaks asked about a \$450K grant. Chairman Hart said his concern was that if the federal grant did not come in the town would still have to raise the funds through taxes. Ms. Liporto said the grants listed in the budget were entitlement grants that the district receives based on student population. These grants pay for staff. They had received \$154K in special education grant money.

Mr. Simon asked where the district would end the year. Ms. Liporto said the trust funds will reimburse the shortfall and they will balance. Mr. Simon said that if they came in over budget, that amount would have to be added to next year's taxes. Ms. Liporto referred to account #4600, Building Improvements, which showed a remaining balance of \$286,597.35. Both the sprinkler system and the new roof came in under budget, but since the warrant article designated money for those two items, she could not use them to help balance the budget. However, this remaining balance from the warrant article will help to offset the tax rate. She said they had budgeted for the additional special ed students for next year.

Ms. Thompson referred to the Expense and Encumbrance Report, which showed a balance remaining of \$823,049.62,

and asked if there were no more expenses, would this amount go to reduce the tax rate. Ms. Liporto said it would. Last year any surpluses up to a certain amount would go into the trust funds, and that is in place for the fiscal year ending on June 30, 2012. There was no warrant article to do that for next year's fiscal year ending in 2013. Ms. Thompson asked what expected expenses would or had occurred in June that are not in the \$1.3M of encumbrances, and specifically if payroll was included in the figure. Ms. Liporto said that payroll was included, but not retirement, utilities and FICA. These will be encumbered before the end of the year. Ms. Thompson asked if they knew the projected expenses and would they be covered by the remaining balance. Ms. Liporto said the expenses would be more than the \$823K.

Mr. Simon said his understanding was that they would meet expenses by using trust money, as they can't use the left over money from the warrant article for the roof and sprinkler system. The \$286K will have an impact on the taxes, and they had projected this when preparing next year's budget. Ms. Liporto reported that Food Services was in the black by over \$14K. Ms. Snyder asked if the trust fund balances of \$107K for maintenance and \$250K for special education included the potential \$100K that they had permission to use. Ms. Liporto said they were included, and that she hoped not to use the full \$100K from each.

Council Rep. Levy asked for more details on the various miscellaneous deposits listed on the Detailed Statement of Accounts. Ms. Liporto said the bookkeeper had probably done it this way in the past, but she will ask that more detail be added. He then asked when they would have the end of the month figures for June. Ms. Liporto said she could give a year-to-date for the end of June next week, but the close out would not happen until the end of July. Ms. Liporto said that although she was leaving, her replacement had been hired and trained.

Council Rep. Levy asked about the transfers from the town's General Fund to the school. That reflects money from taxes that is transferred to the school. He asked if there was a schedule for this and did it occur monthly. Ms. Liporto said some funding was also from the trust funds per warrant articles. They would send invoices to the trustees, who would write checks. Mr. Simon asked if the school received monthly transfers from the town for 1/12th of its operating budget. She said they did not, and she followed the system that was in place when she arrived: they would figure out expenses, such as payroll and summer expenses, and ask that the transfers be made to cover them. She said they had a schedule that was agreed to by the town and the school, and she and Acting Finance Director Angell would be meeting next week to prepare one for next year. Ms. Kwaks asked if the town paid the school all at once when they received the tax money. Ms. Liporto replied that the transfers are made on a schedule, not 1/12th per month and the schedule is based on such things as historical data and payroll schedules.

Council Rep. Levy asked for an overview of trusts and how they worked. Ms. Liporto stated that in New Hampshire trusts are voted by the town. When she arrived in Newmarket, there were 4 trusts established: School Facilities Expansion, Maintenance for unexpected repairs, Technology and Special Education for tuition. Previously they had been funded by surpluses up to a \$50K limit per year, and the School Board would have to seek voter approval for the funding. In the past the total surplus would be divided into 5 parts. Maintenance, Technology and Special Ed would each receive 1/5th, and Facilities Expansion. 2/5ths. To Mr. Levy's question, she said the School Board controls all but the School Expansion Trust. That has to be voted by the town. Mr. Simon asked if the school trust were the same as town CIPs. Chairman Hart said they were equivalent. .

Chairman Hart thanked Ms. Liporto for her service to the town. He said they looked forward to meeting the new person, Christine Blouin.

2. UPDATE ON TOWN FY2012 BUDGET VERSUS ACTUAL THROUGH MAY 31ST

Acting Finance Director Matt Angell asked that the Committee first look at the end of May balance sheet for the General Fund. He noted that every fund has its own balance sheet. CIPs or Capital Reserve Funds are not included in the General Ledger as their funds are held by trustees. Per request from Mr. Simon, Mr. Angell will send out balance sheets for each of the 20 – 30 funds. Mr. Angell directed the Committee to the line item Impact Fees, showing a balance of \$266,789.97 on the Asset page. He said the balance was now about \$184K because of refunds recently made. To Mr. Simon's question, Mr. Angell said the Town Council had voted on June 20th to give an additional \$3,700 to the schools. The funds have been obligated, but the check signing awaits a Council Resolution.

Chairman Hart asked why over \$100K in impact fees had been refunded. Mr. Angell said that impact fees are collected from a developer when a new house is built. The fees are assessed to cover the additional population burden to water, sewer, schools and recreational facilities, and can be used only to expand those facilities. Under the town's ordinances the town has 6 years to obligate the funds or they have to be returned to the homeowner/owner of record. He said the town had not obligated many funds within the past 6 years. Fees were refunded as the town did not use or obligate them within the required time period. Mr. Simon noted that these funds could have been used for various projects if someone was aware.

Ms. Thompson questioned why the balance for School Impact Fees was zero. Mr. Angell explained that historically, the impact fees were broken down by bank account. He said they had to change the mechanism to track the fees. They closed out the four accounts and created a single account, and that account lists fees by type: school, water, wastewater and recreation. The town collects school impact fees, and the school, like the other departments, has to request their release from the Council. Mr. Glennon asked if the fees were being returned because there was no impact, or if someone wasn't doing their job. Mr. Angell stated he could not speak as to whether there was or was not an impact. He said one problem was that the tracking system made it impossible to determine when the fees would lapse, and the other was that the 4 departments had not received reports of available funds and were not aware of these fund balances.

Any fees paid out to the departments would be supported by Council Resolutions which Mr. Angell has. Mr. Glennon asked what would have been the largest sum paid out to a department. Mr. Angell said he believed the last check recorded was for \$159K to the school in 2007, although he preferred not to speak from memory, but with the supporting documentation on hand. Later, Ms. Mantigani, as School Board Rep, confirmed that the school had used funds for architectural design, tests, etc. several years back. Chairman Hart stated that the discussion was beyond the function of the Budget Committee which was not to set policy. They were charged with recommending an annual operating budget, and impact fees did not affect it. Mr. Glennon said they had a responsibility to the taxpayers. Chairman Hart said they were responsible for passing a budget that would meet the town's needs.

Mr. Simon asked what impact fees were due to lapse. Mr. Angell said the next one would be July 17th, and generally there would be 1 or 2 every month for the next couple of years. Mr. Simon referred to Mr. Angell's earlier statement that the general fund had to be looked at in two parts: encumbered and non-encumbered funds. Mr. Angell said that terminology was for the town's fund balance, but when speaking of impact fees, the funds were considered obligated or not obligated. He said that impact fees have an offsetting liability and do not affect the town's fund balance. They are restricted funds.

Council Rep. Levy said he thought that in the past some impact fees had been spent improperly, and asked who is supposed to keep track of the spending and expiration time line, the finance department, Town Administrator or departments? Mr. Angell said he did not believe the ordinance spoke to this. Currently, the finance department tracks this, and tracking is now easier since a concentration account has been opened. The account lists every parcel by date and amount. Adding six years to the beginning date shows very clearly when the funds are due to lapse. This year the town had to refund approximately \$163K in impact funds. Mr. Angell said the list is now generated by the bank, and the monthly bank statements list amounts per facility category and date. He said he had drawn lines on the statements he had given Council Rep. Levy to show when fees lapsed. He said in a perfect world, he would not have had to draw lines, as the funds would have been spent. He stated further that he had never seen another case where a town had to refund impact fees.

Ms. Kwaks said that the ordinance states that the funds designated for each of the four facilities/departments are to be kept in separate bank accounts. Mr. Angell said this account was the functional equivalent of four separate accounts, as the funds are broken down by department and the bank lists amounts and dates by parcel number. He said he was trying to make the tracking and documentation as simple as possible to understand. He said he would like to see the ordinance, and also have Ms. Kwaks take a look at the account statements. Ms. Kwaks, referring to Chairman Hart's earlier statement, said that if the impact fees had been used properly in the past it would affect the bottom line of expenditures in each of the four departments. Chairman Hart said the Town Council, not the Budget Committee, has authority over the Administrator, and he over the staff, and it was not the business of the Committee to determine if an ordinance was being followed.

Ms. Thompson questioned the balance sheet line item, Due to/from Parking Meters, which showed a balance of (123,292.18). Mr. Angell said there is a parking fund, and this represented an interfund loan from the General Fund to the parking fund. He said that the third item from the top on the balance sheet, Deposit Account, was a pooled cash account, a portion of which belongs to the General Fund and a portion to each of the other funds, broken out by all the Due To/From accounts listed below it. The parentheses indicate a positive number for parking, or in other words, money owed

from the General Fund. No parentheses, for example in recreation, show that money is owed to the General Fund. A positive number (no parentheses) is a receivable in the General Fund and a liability to the department.

Mr. Angell said that at some time, the town had broken out its cash accounts, and was using a hybrid between pooled cash and separate accounts. He felt this was done to capture a higher interest rate from the state pool, or PDIP. Since interest rates were now lower, he had closed as many bank accounts as possible, as they were a waste of time. He said it was possible that the recreation account still existed, and in which case he could turn it into a negative for the General Fund and a receivable in the recreation fund.

Mr. Fitzgibbon, returning to the subject of impact fees, asked, in essence, how it came to pass that these funds had to be refunded. Mr. Angell said that the ordinance states that funds have to be obligated, an official action by Town Council Resolution, before they are used. He said he thought Mr. Fitzgibbon was also asking how this is all integrated. When building the CIP budget, there should be a report given that shows what is available in impact fees that can be drawn down to help with projects. To Mr. Fitzgibbon's further question, Mr. Angell stated that the Planning Board sets the fee and its breakdown. The town receives one check from the developer, which is divvied up between the 4 departments/facilities. From there, it is a department's responsibility to develop plans and a time frame for drawing down the funds and then go before Town Council for their release. Chairman Hart stated that it was a complicated process to keep track of all the details involved. Ms. Ryan said the Recreation amount of \$20,716.75 was familiar as it was a bill they had paid as the department had no invoice.

Mr. Angell pointed to the next large number in the Balance Sheet, that of \$9,114,020.83, representing 2012 property taxes, half of which is due July 1st. He said this does not show in the town's fund balance yet, as revenue recognition will occur on July 1st. The offset is on page 2 of the Balance Sheet, under Deferred Tax Revenue, which is the total of all the tax bills sent out. The amount on page 1 reflects the amount outstanding as of the end of May for property tax bills due July 1st. Since then the town has collected over 360K more in 2012 property taxes. The next 4 items on page 1 represent property liens from previous years' unpaid taxes. They totaled \$457,952 at the end of May, but now are down to \$425K.

Mr. Simon said he thought he had read that ambulance receipts were running higher than expected, and asked if he were correct in saying that there was \$90,284.08 in ambulance receivables that had not been collected. Mr. Angell confirmed this, and said the revenue was on an accrual basis and did not include collections. The amount fluctuates based on collections and whether or not there are write-offs. Mr. Angell stated that there is a reserve for uncollected miscellaneous bills on page 1, (47,399.55), which includes ambulance and a few other miscellaneous receivables. He said they should reserve for outstanding bills of more than 120 days. Mr. Simon said they still might have overstated ambulance revenue. Mr. Angell said for ambulance, they tend to receive more than they have written off, as most of the outstanding bills are to Medicare, the slowest to pay.

Mr. Angell then directed the Committee to page 2 of the Balance Sheet, Liabilities, Due to School District, \$1,150,549. This amount represents the June payment, and this line item fluctuates according to an agreed upon schedule based on historical data of school needs. He said the payment schedule choices were, 1. continuing with the method they use, 2. dividing payments equally per month or 3. paying the school in one lump sum, for which the town would have to borrow money. Council Rep. Levy asked if dividing the school payments into 12 equal parts would be the best for cash flow. Mr. Angell said cash flow for the town was different from that of the school. He said the flush months for the town were late October, November, December and May, June and July. In other months there was little revenue coming in, and much more going out. He said they integrated the school payments with the town, so the town did not have to borrow money. He also said that the town had a good relationship with the school, and has occasionally asked to hold off payment until such time as it has available funds.

The school has to meet payroll in July and August. Mr. Angell said the check they write to the schools is based on the report they receive. He said if they paid 1/12th per month they would not save any time, but that he did not know for sure how it would affect cash flow. Council Rep. Levy asked what the impact is when the town has to hold back the school payment. Mr. Angell said if the school needs more money than their scheduled payment, they can ask for an advance from the next month's payment. Payroll must be met, but the school would have to hold off in paying its vendors. The school relies almost exclusively on payments from the town.

Mr. Simon referred to the "Due to/Due froms on page 2. He asked if the Water Fund amount in parentheses meant there was a \$1,073,865.59 balance in the fund. Mr. Angell said it did, and that was a part of the \$3,441,132.94 on page 1. Mr. Simon then referred to the amount in the Due to/Due from Enhancement of \$879,505.37, and said it was close to the

\$879K that was spent out of the General Fund that was owed back. Mr. Angell said the enhancement fund remains outstanding, as the Town Council has not made its decision yet to close it. He said the \$879K minus the bank account equals the \$682K the Council had been referring to. Mr. Simon stated that this was the amount owed back to the General Fund, and Mr. Angell agreed.

Mr. Simon then brought up the Due to/from DPW/Fire Facilities of \$1,360,000 used to build the facility. He said the town did not bond this expenditure, but instead used cash from the General Fund. Mr. Angell said the \$879K represents the system set up. The \$1.073million from the Water Fund should assume the \$879K and there is an audit entry to do that. Mr. Simon said that in general that enhancement and facilities were items that were paid for. Mr. Angell said that if the \$879K came from the General Fund, he would have to reduce the unreserved fund balance by that amount. Mr. Angell specified that the building costs came out of the cash account, and referred to page 3: Reserved for Advance, \$1,360,000, which represented a long-term loan to be paid back in equal increments over a 10 year period. Going back to the liabilities listed on page 2, if the \$879K were from the General Fund, it would be reserved from the unreserved fund balance. Mr. Simon said the Council was trying to find ways to pay the \$682K, other than the General Fund. Mr. Angell said the alternative would not be the General Fund, but peoples' wallets.

Council Rep. Levy referred to the \$1.3 million on page 2 under facility. He said they were paying back 1/10th per year for 10 years. He further stated that the facility was supposed to be bonded, but General Fund cash was used instead to pay it off and nothing was owed on its construction. He asked why funds already paid had to be restricted. Mr. Angell said the cash had been spent, and could not be used again to reduce the tax rate. They needed cash to support operations. Funds had to be held in reserve. Mr. Angell said he had Gasby's Implementation upstairs; it is an accounting pronouncement, not law. Chapter 7 states that any Due to/Due from that is considered non-current and too much to be paid for in one year, be reserved in fund balance. Council Rep. Levy said that if they had not paid for the building, he would concur that reserving the funds made sense, but that there was nothing due on the building. Mr. Angell said he thought Council Rep. Levy was asking why an entry could not be made to have this disappear. He asked what would give him the authority to do that.

Chairman Hart said the town had not given them the authority to spend the money and not pay it back. He said the discussion on the Council level was that they had enough money to build the building, so why should they borrow money and pay interest, when they could borrow from themselves and pay it back. Apparently, the amount had not been paid back. It was a transfer within, an accounting journal entry. The town had the opportunity to pay this out of fund balance, but the vote failed. Council Rep. Levy asked what they were paying back, as the building had been paid for. They were paying themselves back. Mr. Angell explained that the town finances had to be looked at as multiple businesses: one fund with a deficit would, in theory, be paid back 1/10th per year by another. Council Rep. Levy said that if they had gone to the voters and said we have enough money, so we are not going to bond this, there would be no discussion at this point. Mr. Angell agreed that if the town had voted on whether to bond or use the unreserved fund balance, there would not be a discussion now. Mr. Angell said that DRA would confirm that he would need town meeting authority to handle this by a journal entry. There was agreement that the town did not understand the vote it had taken.

Council Rep. Levy said that with the projects the town had to do, they could use the money. Mr. Angell said there was no cash to support that fund balance, and they would have to borrow money to run the town. The town will start setting aside \$136,000 next year, and the total amount of the payback will decrease by that much each year for 10 years. Chairman Hart said this would be added to the town's fund balance each year and would help in the long run. He asked that they move on. Mr. Simon said they had spent \$1,360,000 from the general fund, but not from the general fund balance because they paid for it. He said they paid cash and instead of debiting the general fund balance, they created an offsetting entity, the fire/police station, and placed a debit on it. So now they have to pay back the general fund, because they spent cash rather than bonding it, and debited the DPW/FIRE account. It would have been correct to say that the fund balance was actually short by a 1.36 mil when this was done, but only if the town had given the authority to take the funds from there. Instead, the DPW/FIRE entity had been debited.

Mr. Angell said the bank statement was lower by 1.36 mil because cash had been spent, and if they tried to use that money for operating expenses, they would find that there is no cash. He said that the first page of the balance sheet shows 3.4 million in cash. That amount includes the 1.35 mil that was spent, so the total is overstated. If the town had bonded for the fire station, that amount would be 1.36 mil higher. Chairman Hart said that if they do the 1/10th payback, next year the amount would be \$136,000 higher, and every year thereafter. He said this was in the budget for some years, but the transfer was never done. He said this was not the first conversation about this. Mr. Simon reiterated that this was done incorrectly.

Ms. Kwaks asked that they go back to the \$879,505.37, Due To/From Enhancement on page 2 of the balance sheet. Mr.

Angell said that when the audit occurs, that number will be zero, because it will be netted against the water and sewer funds. He said the \$879,505.33 is made up of 2 pieces: one is an actual bank account and the other is reflected in account #3048, the enhancement fund. The difference is revenues of \$682K that the town has not collected. Ms. Kwaks said that amount was money received from the sale of the Eagles and the Riverdale buildings. She said that money was taken from the Downtown TIF, and when the sale occurred, the money should have been returned to the TIF, but instead went into the General Fund to reduce taxes. This was done without Council approval. She said this was similar to money that was spent on the DPW/FIRE building without authorization. She contended that, in effect, they overspent the budget in the year the sale occurred.

Matt Angell referred to an email he had received from Attorney Justin Richardson about the sale of the buildings and the disposition of the funds under RSA 162-K: 13. Since there was no evidence that the town had established a department/administrator to hold the land on behalf of the town, by default the funds from the sale would go into the General Fund, rather than the TIF. Ms. Kwaks said there were two parts to 162K, referring to a section that stated that only after all bills associated with a TIF are paid, can money go into the General Fund. She felt Attorney Richardson's opinion was incorrect. Mr. Angell said that if she were correct the General Fund balance would be reduced by almost one million dollars, and the town would not see any tax relief for about 10 years, unless the money comes back from the Downtown TIF to the General Fund. She said she could not see covering up erroneous bookkeeping from the past for that amount of money. Mr. Angell said that even if the money had gone into the TIF, the financial impact would be devastating to the town and there would be no tax relief this year.

Chairman Hart emphasized the financial impact to the town. Ms. Kwaks said that this was an example of allocations that had been done improperly and that it affects the bottom line. She said she wanted the Budget Committee to write a letter to the Council about the legality of this before they voted on a resolution. Chairman Hart said this was not on the evening's agenda, and they did not have information about this in their packet, but had received a memo about the sale of the 2 properties and the disposition of the funds. Chairman Hart said he would not put this issue on the agenda unless the whole Committee voted to do so, as this was a Council issue and outside the scope of the Budget Committee. Ms. Kwaks said it was within the authority of the Budget Committee to take those who allocated funds incorrectly to court. She felt the Committee had to deal with such issues as they keep re-occurring, and that the Council was about to pass a resolution before correcting past errors.

Mr. Glennon said that Ms. Kwaks was correct. He had been Chairman of the Downtown TIF when they entered into negotiations to purchase the properties. He said that it was stated very clearly that the monies from the sale of the properties was to go back into the TIF. This process was not followed, and it was up to the Budget Committee to recommend to the Council that the funds were to be returned to the TIF. He said the process had been overlooked. Council Rep. Levy said they were not going to solve this issue during the meeting, but that it would be documented on tape and in the records. He felt the Council should be given the minutes before their next meeting.

Council Rep. Levy referred back to the 1.3 million for the Fire/DPW building. He said what they were doing was attempting to remedy mistakes without crippling the taxpayers. It was his understanding that the deposit account on page 1 of the balance sheet should be 1.3million higher than the 3.4 million recorded. Mr. Angell said this because the town never bonded for the building, but had instead used cash. Chairman Hart said this would be like a business held by stockholders who told you to borrow money to build a facility, but instead you used available cash. This would leave no available cash to pay dividends. Mr. Angell agreed. Mr. Angell said he believed the 1.3 million had been reserved in fund balance for many years, but the transfer had not been done. Since the funds had been reserved, they could not be used to reduce the tax rate. Mr. Simon said the money had been spent 7 years ago, and they had to pay themselves back.

Committee Vice Chairman Snyder commented that it seemed they were making progress in digging out of a lot of past errors. She said that since Mr. Angell's arrival in December, much had been uncovered. She asked Mr. Angell if he felt the Resolution on the Downtown TIF was a reasonable solution. Mr. Angell said that when he looked at the town's financial statements, he was trying to get the best looking numbers for the town's bond rating. He said that if the vote were not taken it would be devastating to the fund balance, as the General Fund would be the default funding source. She asked what the purpose of apportioning blame would be if it further harmed the tax rate. She asked that if what Mr. Angell said was true, why there would be a question on the upcoming Council vote. Ms. Kwaks said this was still being not being done within the realm of the existing law, and \$682K was spent without a vote. Mr. Angell said the \$682K was out of the Main Street Project. Ms. Kwaks said \$682K was received from the sale of the 2 properties, and they were purchased with TIF funds, which were supposed to be returned to the TIF.

Committee Vice Chairman Snyder said that it seemed that Mr. Angell was trying to provide the town with results that will take care of past issues without devastating the tax base, and that sometimes it is not possible to fix past errors.

Chairman Hart said the properties did not equal \$682K. Ms. Kwaks said they did if the \$11K for legal fees were to be deducted. Mr. Angell said the properties were bought with monies from Fund 9, the Downtown TIF and the \$682K is out of Fund 48, the Main Street Reconstruction Fund. He said they could not relate the two funds. Chairman Hart asked Ms. Kwaks what putting the money in the TIF would do to the town now. She said they would have an additional \$682 in the TIF and not have to use \$198K of water funds.

Mr. Angell directed the Committee to page 3 of the balance sheet. The Unreserved Fund Balance was \$1,003,981 at the end of May. (This shows as \$1,004,276.56 on the sheet dated 6/15.) He said this includes the sale of the 3 properties. He said that if what Ms. Kwaks said were true, that figure would go down by the sale of the land to almost zero, and the Downtown TIF would go up by the same amount. He said the Council votes to close the Downtown and Black Bear TIF's were going to occur in July. TIFs. He said those closings would not benefit the general fund until the next fiscal year. He said if there were turn back amounts from departments, there might be some tax relief, but under Ms. Kwaks scenario there would be none. Ms. Kwaks said it was not her scenario, but that which had occurred under the Town Administrator.

Ms. Kwaks spoke about another Council Resolution to return a percentage, rather than the dollar amount of \$380K to the town if a school wasn't built. Also, she said the Council had not specified a time frame within which the school had to be built. She said the warrant article specified that a certain amount was to be spent on open space, and if money was to be returned to the town it had to be the exact amount given. She said there was a possibility that the town would receive less than they had given to the school, and that would be in violation of the warrant article. Chairman Hart said they were not going to get into that issue at this time.

Mr. Simon, to Vice Chairman Snyder's point, said that Mr. Angell is trying to present options to resolve issues. He said his focus, along with correct accounting, seemed to be to not adversely affect next year's tax rate. Mr. Simon was concerned that in the future, the town would be asked for money for the water fund, while some of that fund had been used to fix this problem. He said he did not know how to resolve this, but that Mr. Angell was counseling the Town Council on how to help with this year's tax rate. He felt this was a short term, not a long term solution.

Mr. Glennon asked Mr. Angell if they wanted a bond more than they wanted it to be legal. Mr. Angell said that if the bond had been issued that would be legal. Council Rep. Levy wondered, since interest rates were currently so low, if they could get a bond now for the building, in lieu of the present plan. Mr. Angell said that although he was not up to 100% on municipal bonding, there were specific IRS regulations that dealt with this. He said a bond had to be issued within a certain period of time to be interest free, and that time period had lapsed. After that time, the interest would be taxable, which ups the interest rate.

Vice Chairman Snyder spoke about the "Open Space Bond". She said that if they looked at the Warrant article language, it is a land acquisition bond for school facilities or recreation fields, not an open space bond. She said the school is part of the town, and if the school gets the land and wants to do something with it, it was still part of the town. If the school gets the \$380K it helps to reduce the tax rate, whereas if the town gets those funds they put them into the General Fund. She said it was all the same pie. Mr. Glennon asked why the Council was going through these steps if the Town had already voted it. Council Rep. Levy said it would be voted on by the Council very soon.

Ms. Thompson asked what was included in the Adjusting Journal Entries of (\$336,035.39) on page 3 of the Balance Sheet. Mr. Angell said it included about \$253K in impact fees that were incorrectly recorded in prior years as revenue rather than a liability, and \$90K from 2 years at \$45K each that had been shown in the audit but not recorded in the accounting system. Chairman Hart asked if the problems they were seeing were a result of not having enough staff, or their not having enough knowledge. Mr. Angell said the staff was good and doing what they were directed to do. Chairman Hart said then the key was in having a good Finance Director who could give appropriate direction and also keep the Council informed. Mr. Angell said that he was intending to revamp the chart of accounts and the level of detail would go up. He said the software problems had been corrected, and next he wanted to break out grant funds so they could be seen separately instead of in the General Fund. By doing this, they would not be recorded incorrectly against expenditures. He said that historically this has led to incorrect budgeting. Mr. Angell said that starting July 1st he was going to change how the grant accounting works. This would not be reflected in next year's budget, but would be in the 2013/2014 budget.

Council Rep. Levy said that in order to go back and fix all mistakes from the past, they would have to conduct a forensic audit which would cost more than its benefit. Mr. Simon said that it was important to clean up the system to make it understandable and make people responsible for their work and for following proper procedures. Then it would be easier

to oversee the system and pick out numbers that did not seem to make sense. Council Rep. Levy pointed out that when things are fixed, there are always ramifications. Ms. Kwaks asked whose responsibility it was to check the work of a Finance Director, the Town Administrator or an auditor. Mr. Angell said that he couldn't rely on auditors to find his mistakes, but that accountants were not trained to find legal errors. Mr. Simon said that a financial officer should report to the Town Council as well as the Town Administrator.

Mr. Angell asked to go over the revenues and expenditures, beginning with the Revenue Report. He started with Motor Vehicle permits. By the end of May, they had received \$983K, but at this point they had failed to collect about \$6K of the budget. Monday's collections had not been posted, and there were only 2 more days within the fiscal year for them to collect the fees. He felt they would at least meet the budget, but perhaps have a surplus. He said that would not be enough to close the overall deficit because of several mistakes on the tax rate. He said that on the revenue side there would be a deficit. Although he did not know the exact amount yet, he expected it to be about \$190K. There was a mistake on the tax rate of about \$170K which had been recorded the wrong way, but which when corrected offset all but about \$10K to 20K of the \$190K. He said real estate taxes are higher by about \$170K because of a mistake on the MS4.

Mr. Angell spoke about spending freezes reported on the last page of the Expenditure Report, which showed \$787,128.54 remaining in the budget. This was a positive number because of reductions in spending. He said that even if they spent \$100K, they would still have money to return to the fund balance, but with 5 days left in the fiscal year he could not present an exact figure. Council Rep. Levy asked about the figure for road salt, which showed \$53K in expenditures and asked why an additional \$7,512.29 was encumbered. Mr. Angell said he would have to ask Rick Malasky. Council Rep. Levy stated they had frozen funds. Mr. Angell said that the Council had voted to freeze certain amounts for salary and related benefits, totaling about \$106K. Council Rep. Levy spoke with Town Administrator Wojnowski the day of Town Meeting in March about line-item budget cuts/freezes, which they then discussed at the next Council meeting. They totaled somewhere between \$300 and \$400K. However, there was no Council Resolution voted on for these further cuts/freezes.

Mr. Angell explained that an encumbrance is simply a purchase order. Councilor Levy asked if all the encumbrances on the sheet had been spent. Mr. Angell said he did not believe so, but he was going through them now and closing some. Council Rep. Levy said that Vehicle Equipment Maintenance had encumbered \$17K and Mosquito Control, \$20K, both of which if actually spent would bring them over budget. Mr. Angell said if the encumbrances have not been spent and can be closed, they would add to the unreserved general fund balance. Mr. Angell said that often these encumbrances are obligations the town has to a specific vendor. Council Rep. Levy said that all the encumbrances added up to 6 figures. Chairman Hart said that it didn't appear that some of the line items the Council discussed and wanted to freeze were in the Resolution. Mr. Angell said he had closed quite a few encumbrances already, but he did not have an exact figure. Council Rep. Levy said that the total of the line-item encumbrances was about \$157K, but Mr. Angell said the actual figure was lower. However, he said that when he extracted the grant data the figure would go up.

Vice Chairman Snyder asked if there were addition Council votes beyond the first one for \$106K to freeze expenditures, and there were not. She also had noticed quite a few line item balances that were over 100%, many of which were in Public Works. She said this could be a budget issue for next year. Mr. Angell said Fire was one of the accounts in which the revenue was not recorded against expenditures. He said they had a grant, but grant money was not extracted from the general fund. He was in the process of doing that now. Grant money can be spent on top of the actual authorized budget, but only within the intended purpose of the grant. Some items showing as over-budget are grant money and some are contractual, but most are actual over-budgets. Council Rep. Levy pointed at street lighting which had an encumbered amount of 12K. Mr. Angell said he had asked them to encumber this amount as it was contractual, but they would not actually be spending that amount.

Ms. Ryan asked if the Town Administrator is also authorized to freeze line items, and he is. Council Rep. Levy said that is what he thought had happened, and when he sat down in March he assumed the funds were going to be frozen, not encumbered. Mr. Angell said he had gone through other line items that could be frozen for the same savings, rather than freezing some that had been recommended. He said he was doing a budget analysis to make sure things were equal. Chairman Hart said he felt this discussion was best at the Council level, because the Council felt it had given clear enough directions. He pointed out that the Town Administrator has authority within the budget, but without a vote, Council direction might not be taken. He said that Council Rep. Levy's goals had been achieved as there would be a surplus. Mr. Angell said he did not feel comfortable giving the amount of the estimated surplus at this point as there were still unknown factors.

Vice Chairman Snyder said there were many departments within budget. Mr. Angell said that grants should have been

pulled out of the budget so that they could have been dealt with appropriately. The Finance Director should go before Council to ask that line items be allocated to see what actual expenditures are against those budgeted, He said that at this point it was not worth it, but that going forward in setting the budget, this would be clear. Mr. Glennon asked if it were not true that funds within a department can be re-allocated to cover over expenditures in a part of its budget. Mr. Angell said that it would depend upon how the budget was voted. If it was voted by line item, the Department Head would have to go before Council for approval. Mr. Glennon's understanding was that only moving money from one department to another required a Council vote. Mr. Glennon thought this could explain some of the lone item overages in some departments.

As of July 1st, Mr. Angell will be pulling the grant money from all department budgets. These funds will not be co-mingled, so there will be a clearer picture of actual revenues and expenditures. Mr. Angell said the cut off date to submit 2011/2012 invoices is 7/20, and accruals have to be completed. He expected to have final figures toward the end of July. He said they would still have time to add to fund balance. He said that any surplus from the Black Bear TIF, since the vote would occur in the next fiscal year, would have to be sold to DRA if it were going to be used to reduce the tax rate.

DISCUSSION of ambulance accounts receivable information

This was not discussed at the meeting, due to the late hour.

4. UPDATE FROM CIP COMMITTEE

Judy Ryan said they were on the fast track. Plans from Department Heads are due July 16th, after which the CIP Committee will meet. The Committee intends to be finished with its work by September 15th. Department Heads will all use the same format, similar to one that Chief Cyr uses. Once work is complete, the CIP Committee will send its report to the Budget Committee.

6. APPROVAL OF MAY 14, 2012 MINUTES

Vice Chairman Snyder moved to approve the minutes of May 14th. Russ Simon seconded. Corrections: Amy Thompson noted that her last name had been changed twice in the minutes to Johnson. Linda Mantegani asked that the name LaPorta in item one of the agenda be corrected to Liporto.

Gary Levy asked that his reason for arriving late at the meeting be added: he had been attending an overlapping Town Council non-public session. The motion was approved unanimously with one abstention: Dana Glennon had not attended the meeting.

In the future the minutes will be forwarded to Chairman Hart as well as to the town office.

5. OTHER BUSINESS

Mr. Glennon asked that the Committee have name tags.

7. SCHEDULE NEXT MEETING

The next meeting will be Monday, August 27th at 6:30 p.m. in Council Chambers.

There was a request that the Committee receive an agenda and supporting data in July.

Vice Chairman Snyder thought they should have a discussion of their goals and the role of the committee. Council Rep. Levy thought this was a good idea to establish guidelines. It was suggested that the Committee take some time to

educate itself and have discussions so they would be better prepared when it was time to work on the actual budget.

8. ADJOURMENT

Dana Glennon moved to adjourn the meeting, and Ellen Snyder seconded. The vote was unanimous, and the meeting was adjourned at 9:06 p.m.

Respectfully submitted,

Ellen Adlington, Recording Secretary