**TOWN OF NEWMARKET, NEW HAMPSHIRE**

**BUDGET COMMITTEE - TOWN BUDGET SESSION 1**

**November 23, 2015 6:30 P.M.**

**TOWN COUNCIL CHAMBERS**

MEMBERS PRESENT: Chairman David Foltz, Vice Chairman Michael “Mickey” Burns, Craig Dionne, Dan Hill, Meg Louney-Moore, William “Blue” Foster, Michael Lang, Daniel V. Smith, Jeff Raab, Town Council Rep Amy Thompson

EXCUSED: School Board Rep Mike Kenison

ALSO PRESENT: Town Administrator Steve Fournier

**AGENDA**

Chairman Dave Foltz welcomed all present to the Budget Committee meeting of November 23, 2015 and called the meeting to order at 6:37 pm, followed by the Pledge of Allegiance.

Chairman Foltz announced that all members of the Budget Committee were present except Mr. Mike Kenison, who was at a Facilities meeting downstairs and was excused. He welcomed Amy Thompson back to the Budget Committee as the new Town Council Representative.

**OLD BUSINESS**

**Approval of the Minutes of September 28, 2015**

Ms. Louney-Moore made a motion to approve the minutes of the meeting of September 28, 2015, which was seconded by Mr. Lang.

Corrections/Changes: Chairman Foltz made a correction to page 4 to change School Business Administrator Fournier to *School Business Administrator Blouin*.

The Committee voted in favor of approving the minutes of the meeting of September 28, 2015 as amended, with 8 ayes and 2 abstentions.

**NEW BUSINESS**

**TOWN PROPOSED BUDGET FY17 – WORK SESSION 1 OF 2**

Town Administrator Steve Fournier presented the **Town Council Approved Operating Budget** for the fiscal year ending June 30, 2017. He said that when starting the budget they looked at various figures, one of the first being the **Consumer Price Index (CPI)** for the region. He explained that this showed the change in price levels for consumer goods and various items and said the CPI increase for the year was very slight. He stated that in July 2014 the National CPI increase was 2%, New England Regional increased 1.8%, and Boston Regional, from which they usually took their figures, increased 1.7%. On the other hand, he said that for the past year National dropped 0.7%, New England decreased by 0.2%, and Boston was only up by 0.2%, and that this was all due to the drop in oil prices. Town Administrator Fournier stated that they also looked at the Social Security cost of living adjustment, and that this year no increase was being given due to negative CPI growth. He said they also looked at **Unemployment Rates**, which were continuing to drop, with the National rate down 1 point from 6.5-5.5%, the County down 1 point from 4.8-3.8%, and the State dropping from 4.4-3.5%. He said that they considered Newmarket to be part of the Portsmouth Metro area which had seen a slight decrease from 3.6-3.1%, and that the Town had seen a negligible decrease from 3-2.8%.

Town Administrator Fournier next addressed the **Current Tax Rate** of $24.96, with the greatest part going to Education. He said that the Local School portion of the Tax Rate was 61.74% or $15.41, the State School 9.86% or $2.46, the County at 4.29% or $1.07, and finally the Town portion of 24.12% or $6.02. He provided a **Ten Year Tax Rate Comparison**, and said the Town had remained pretty stable except for the bump in 2011 to $7.03/1,000. He said they had also compared what the rate would be adjusted for inflation by taking the CPI for the region and adding it to the 2006 tax rate, then continuing on over the 10-year period. He said the tax rate for the Town by inflation would have been $6.82 versus where they were currently at $6.02/1,000, and that inflation was lower than the actual tax rate increase. He next provided a chart showing the **Assessed Value of the Town** at $722,476,271, with a drop the year of the revaluation. He pointed out that the Town had added $10.5 million in value over the past year, partly due to the Mill coming on, residential development near the Rockingham Country Club, and the market area for Weavers Row.

Town Administrator Fournier next showed the **Town Council Recommended Bottom Line Budget** of $9,996,942, or an increase of 3.5%. He explained that the budget increase of $340,523 was comprised of $62,293 for the Enterprise Funds, with no impact on taxation, and $278,230 for all other funds including Special Funds and the General Fund. He next presented the **FY17 Proposed Budget** with expenditures broken down by fund. He stated that the Town Council was proposing a General Fund budget of $6,880,668 or less than a 0.5% increase, and a Special Funds budget of $1,005,493 with an increase of $47,000. He explained that the Special Funds included the Library, over which they had no authority over expenditures, and Solid Waste and Recreation Revolving which both received revenue going back towards their funds. He stated that Enterprise Funds had actually decreased from last year, with the Water Fund decreasing by $14,238 or 1.5% and Sewer increasing $76,531 or 6.95%. He broke down the **Budget by Fund**, with the General Fund comprising 54%, Enterprise 37%, and Special Funds 9%. He next provided a quick **Three-Year Comparison** by fund which showed what the Department Heads had proposed, what the Town Administrator had proposed, and what the Town Council ended up adopting. He felt there was not much difference between his proposed budget and what the Council adopted, and said it had remained pretty level at about where they were last year.

Town Administrator Fournier next provided a chart showing **Where the Increase was Going**. He said they had received their rates from the New Hampshire Health Trust and were seeing a guaranteed maximum rate increase of 6% or $58,758. He said there was no increase in Retirement for the year as it only came out every 2 years. He broke down the contributions to the Town salaries, with a contribution of 11.17% going to Group I employees, a contribution of 15.67% to Teachers, and contributions to Group II broken done by Police at 26.38% and Fire with 29.16% of their salaries. He said they were also seeing increases in Workers Compensation and Property Liability, and that the Merit Pool had been increased by $10,000. He said Election Salaries were increasing due to three (3) elections being held in FY17, and that Police Salaries had increased due to the new collective bargaining agreement approved last year. Town Administrator Fournier said the next area seeing increases was contributions to Capital Reserves, with an increase in Building Improvements to replenish funds and an increase in Storm Water Management for upcoming projects. He explained that funds currently in the Capital Reserves would not cover the projects as they were estimated. He said the total estimated for Storm Water Management was $200,000-$300,000, and that the current contribution would bring the total in the fund to only $100,000. He said it was the same situation with the Macallen Dam which would probably need to be bonded. He stated that Recreation Facilities had not made any contributions for years and that the Recreation Director had started to withdraw funds from his Capital Reserve. For Water & Sewer he stated that all the increases were actually in Sewer, with the reason being the need to operate two (2) plants at the same time in FY2017 during the switchover from the old plant to the new.

Town Administrator next showed the **Revenue Budget** broken down by fund, and said they were estimating conservatively where their revenues would be in 2 years by looking at the trends for the last few years. He said they estimated a 3% increase in overall revenues of $172,573, mainly from Motor Vehicle registrations, building permits, and planning applications. He stressed that the next slide showing the **Tax Impact** was *only an estimate using data as available today*. He said they were estimating a tax rate of $6.33 or an increase of 21 cents. He explained that they take the gross appropriations, back out the revenue, and add Overlay, from which they pay their abatements. He said War Service Credits were then added, for which Veterans could apply to reduce their taxes. He explained that this gave Net Town Appropriations of $4,570,096, which was then multiplied by the Assessed Value of the Town and divided by 1,000 to give the tax rate of $6.33/1,000. Town Administrator Fournier stated that the Average Home Value was $250,000, with the current Town portion of the tax bill at $1,505 annually. He said the Proposed would be $1,582 annually or a 5% increase on the tax bill of $77 annually.

**CAPITAL RESERVES – Questions and Concerns**

Town Administrator Fournier said there had been some confusion and comments about Capital Reserves, basically with regard to how and why they were used. He said people often misconstrued Capital Reserves with Capital Improvement Plan (CIP) but that they were two different things. He explained that CIP was a plan that Department Heads and the Capital Improvement Committee presented to him, the Budget Committee, and the Town Council to show what projects were outlying for the next 6 years. He explained that Capital Reserve Funds were one way to fund those projects, and were basically savings accounts for the Town. He said the funds were comprised of money that was put aside so that when the projects came due, they could make withdrawals without affecting the tax rate. He stated that this year the CIP Committee had recommended approximately $1.3 million worth of capital improvements, and that this recommendation was based on *if they could pay* *everything* *outright* for those projects. Town Administrator Fournier said he then had to take the list and figure out the amount of money available in the funds and weigh in what the Town could afford, which was his priority when presenting his budget to the Town Council.

Town Administrator Fournier said that he had heard that this year the he was “cutting everything” in the budget, but said that funds were already available to the departments in Capital Reserves and that they needed to start withdrawing and using those. He said he felt that due to concerns over budgets, departments had been afraid to come to the Town Council to withdraw money to do their projects. He stated that he had appointed a committee of staff including the Building Inspector, the Director of Public Works, the Buildings & Grounds Superintendent, and the Finance Director to be a Facilities Committee for the Department Heads to come up with a Master Plan of what was going to be funded next and where they would be withdrawing funds from to pay for it. He added that he also mentioned to the Department Heads the need to look at other financing. He said there was very little debt on the Town side and that currently they were only bonding for the Downtown project and had purchased land for conservation. He explained that a lot of larger communities issued debt which could be retired and replaced with new debt, allowing for a constant way to fund Capital projects. Town Administrator Fournier cited the roads as an example of possible bonding, and said he had asked UNH to provide in their study what the Town should be doing annually, but to also let the Town decide what they could afford for that year. He stressed that he wanted to make it clear that he had not cut funds but wanted the departments to use the funds in their Capital Reserves, which was what they were there for.

Mr. Raab asked why the revenue list on page 18 of the budget was comprised of zeros for the Capital Reserve Funds. Town Administrator Fournier said that was a line for the State that had to be included, and that they did not book it as a revenue at this point. Mr. Raab also asked if the “use of the fund balance” referred to the General Fund Balance, and Town Administrator Fournier replied that was correct. He said that usually in October there was a discussion about how much fund balance they would use, or whether they were going to use it to buy down the tax rate. He stated that as the fund balance was now a budgetary item, they tried to match that closely to their contributions to the Capital Reserves, so that if a situation arose where the fund balance was not healthy enough it would not impact operations. He said they usually contributed approximately $400,000-$500,000 to Capital Reserves due to larger revenues coming in. He stated that the difference between what was budgeted for the Town and their actual expenditures was shrinking, and the budget was being brought closer to actuals.

Mr. Smith asked Town Administrator Fournier what his forecast was if all the Capital projects approved by the CIP went forward at $2.5-$3 million. Town Administrator Fournier replied that they were planning to withdraw pretty much what they were putting back in the funds, but they would not do all the projects recommended by the CIP Committee. He said he wanted to see a plan from the Department Heads for what they wanted to do with their Capital Reserve funds, and said he could also not predict what the Town Council would approve. Mr. Smith asked about the Fire Department request for Protective Equipment, as their Capital Reserve balance was $327,000 and they needed to spend $319,000 right away. Town Administrator Fournier said if that was the proposal the fund would come down all the way, and said he would rather see the Capital Reserves near zero and then replenish them. Town Administrator Fournier explained that the problem with the departments was twofold. He said they kept saving for a “worst-case scenario” but that the Town also had insurance for that. He said secondly, they had stopped asking for funds a few years ago, as there was a concern in the Town that spending was out of control, not thinking that the Capital Reserves were separate from the general fund and could not go back on the fund balance.

Town Administrator Fournier said that he also wanted to clarify that the Town Meeting process for this year would be completely different for the Town as last year the Charter Amendment was passed allowing for all Capital Reserve funds to be part of the operating budget, as no money was being appropriated to be put into the funds. He said the only purpose of the Town Meeting was to “raise and appropriate funds”, and that unless there were petitions of debt or a warrant article, there would only be one (1) question: whether you are in favor of whatever bottom line the Budget Committee puts forward and whatever was specified as the default budget. He said he planned on giving the same presentation at the Deliberative Session. Mr. Raab asked if the increases shown in the forecast could be offset by spending down the Capital Reserves, and Town Administrator Fournier replied that they could not as any estimates in the operating budget were increases in operations and were not Capital.

Town Administrator Fournier stated there was also a concern over the next 5 years that the Insurance Market was shrinking. He explained that the “insurance” was actually a pool to which money was contributed by all the communities and withdrawn to pay claims. He said this came about in the late 1980s when private insurers stopped covering municipalities due to the amount of risk. He said that the company writing the coverage was pulling out leaving all insurance under one (1) risk pool in the State with no competition. He said this meant that the cost of the pools could go up because of one community with a lot of claims. He said there was no longer any aid from the State except for Room & Meals tax, and that Retirement costs would also be rising.

Discussion: Mr. Raab said he saw only a debt of $100,000 for principle and some interest in the Budget Section. Town Administrator Fournier said that was for the Waste Water Plant, as they needed to start paying off that debt. He specified that it would not impact the taxes but would impact the customer rates and that the Town had been planning for that with incremental rate increases. Mr. Raab questioned another debt which Town Administrator explained was for the MacIntosh Well, waterline upgrades, etc. and they already had the money in place to pay that debt. Mr. Foster asked what entities determined whether a project was a Capital expense, and Town Administrator Fournier replied that it was the Town Council. Mr. Foster mentioned the body cameras which were listed last year as a budgetary item and said he felt they should have been a Capital expense. Town Administrator Fournier explained that it was a one-year project, and that there were also limits put in by the CIP Committee. He said projects needed to have a certain lifespan and needed to be over a certain threshold of $10,000. He further explained that some projects that met the $10,000 threshold still did not fall under contributions to Capital Reserves, and that some communities did not consider annual operational costs as Capital projects. Mr. Foster mentioned that the Town also gave $21,000/year to the Newmarket Athletic Association, and asked if Recreation worked with them to control expenses. Town Administrator Fournier said that they did work together.

Chairman Foltz said his concern was that after 2017 there would be some very significant jumps in the tax rate, and that combined with the School side this could make 2018 another “2011 type” of year again. He asked if perhaps they were playing it too close for this year, and questioned the estimated 25% increase in the tax rate for Water & Sewer. Town Administrator Fournier said he did not think it would go that high and felt they would almost need to see another situation like 2008 with the market collapse and they were not at that level. He said the Finance Director was just being very conservative, asking what other large projects they had coming in for building permits, and felt it was just a worst-case scenario. He said that if there was a significant increase in the tax rate, the Town Council would request him to cut operating expenses. Mr. Hill mentioned that costs were mostly based on changes in insurance. Town Administrator Fournier said discussions of the State policy were very volatile right now as they did not know what the Secretary of State, who oversees their insurance, was going to do. Chairman Foltz said he saw a doubling of debt for 2019, and Town Administrator Fournier explained that was when the new Waste Water Plant and the new MacIntosh Well would be coming online and the rates would be hitting.

Town Administrator Fournier asked Chairman Foltz if he wanted all the Department Heads in for the next Budget Session. Chairman Foltz said he felt just the major departments like Police, Fire, Public Works, and Water & Sewer should be present as they were the major contributors to the budget. He asked if there were any other questions on the Council’s proposed budget before they got to the Department Heads next week. Mr. Burns asked why the Overlay took such a dip for 2017 and said it looked like they would be using it again in 2018/2019. Town Administrator Fournier said it had been reduced as they were not using it, but that he was keeping it up for 2019 due to the next revaluation of the Town, adding that the money in Overlay rolled over if it was not spent. Mr. Hill asked Town Administrator Fournier to walk him through a process, and citied the Capital Reserves for the Fire Department on page 50 of the budget, where the Department Head proposed a budget of $408,650 and the Town Administrator and the Town Council had approved only $50,000. He asked if that was an indication that the Fire Department would not be able to purchase the safety equipment they needed. Town Administrator Fournier said that as of September 1st there was $327,351 in their Capital Reserves, and as they had the money there they needed to request it. Town Administrator Fournier said that the Department of Public Works also had $570,000 in their fund to do projects and he had also cut their proposed amount. Mr. Raab questioned whether the actual expenditures for the Capital Reserve Funds had already been paid into and were included in the September 1st levels. Town Administrator Fournier confirmed they were, and explained that it should be close to 100% as it was actually a transfer. Chairman Foltz restated that the goal for now was for the departments to use their Capital Reserve Funds to pay for things they needed and go to some type of debt for larger projects. Councilor Thompson felt it was also important to keep an eye on the Town’s total bonding capacity. Town Administrator Fournier explained that the State issued the debt and would examine their books, as the Town collected debt for everybody and would need to borrow for everybody.

Chairman Foltz thanked Town Administrator Fournier for his presentation, and asked Budget Committee members to jot down any questions and bring them in for the meeting with Department Heads on Monday. He said the dialog would be more open and more line-by-line.

**OTHER BUSINESS**

**Next Meeting**

Chairman Foltz announced that the next meeting for Session 2 of the Town Proposed Budget FY17 would be held Monday, November 30, 2015 at 6:30 pm. He said the first Work Session for the School would be held on Monday, December 7, 2015 at 6:30 pm and that the Town Budget Hearing was scheduled for December 14, 2015. He added that depending on progress at the School Work Session on December 7th, they might need to have a second session on December 21st.

Mr. Dionne stated that he would be out of town on December 7, 2015.

**Adjournment**

Mr. Foster made a motion to adjourn the meeting which was seconded by Mr. Lang. The Committee approved the motion unanimously, and the meeting was adjourned at approximately 7:39 pm.

Respectfully submitted,

Patricia Denmark, Recording Secretary