

MINUTES
JOINT BUDGET COMMITTEE MEETING (JBC)
CITY OF PORTSMOUTH, NEW HAMPSHIRE
1 JUNKINS AVENUE

DATE: Wednesday, November 29, 2017

TIME: 8:30 A.M.

Eileen Dondero Foley Council Chambers

Municipal Complex

Present:

Voting Members: Mayor Jack Blalock, City Councilors – Chris Dwyer and Rebecca Perkins;

School Board Members – Ann Walker and Kristin Jeffrey; Fire Commission Member – Jennifer Matthes; Police Commission Member – Joseph Onosko

Non-voting Ex-officio Members: City Manager John P. Bohenko; Finance Director Judie Belanger; Superintendent of Schools Steve Zdravec; Fire Chief Steven Achilles; Police Chief Robert Merner

I. Call to Order – Mayor Jack Blalock, Chair, JBC

Mayor Jack Blalock called the JBC meeting to order at 8:30 a.m.

II. Opportunity for Elected Officials' Comments (Non-JBC Members)

Mayor Blalock gave the elected officials (Non-JBC members) an opportunity to speak. Seeing no one rise, he turned the floor over to City Manager John Bohenko.

III. Review of City Charter as it pertains to the budget process – (City Manager John Bohenko)

City Manager Bohenko reviewed the members and charge of the Joint Budget Committee (JBC). He said the JBC was not part of the Charter, but the Charter was the governing document for the budget. He stated the FY2019 budget would go from July 1, 2018 through June 30, 2019 and that the City had already initiated the Planning Board process for the six year Capital Improvement Plan (CIP), necessary by State Statute and City Charter requirements, as part of the budget process. The Planning Board will vote to adopt the CIP in January or February. By Charter requirements, the City Manager must prepare and submit the CIP to the City Council three months prior to the final budget submission to the City Council. The Council would hold a

public hearing according to Section 7.6 of the City Charter, and the Council must adopt the CIP before the City Manager can submit the budget to them, at least forty-five days prior to the start of the new fiscal year (May 15, 2018). City Manager Bohenko discussed the details of the budget schedule per the Charter requirements and said they would discuss the budget process going forward in more detail later in the meeting.

IV. Overview of the budget process – City Manager John Bohenko and Finance Director Judie Belanger)

Finance Director Judie Belanger said that this first JBC meeting would address the building of the budget and the long term financial planning they had implemented.

She said the budget document was built off of recommendations and guidelines of the Government Finance Officers Association (GFOA), and she described it as being comprehensive and easy to read. The City has received a Distinguished Budget Presentation Award from the GFOA for the past 12 consecutive years.

The Finance Director spoke of the fiscal challenges they faced with being one of nine states with no income tax and one of five states with no sales tax. Alaska was the only other state that had neither tax. Property tax was the primary means of financing local government in New Hampshire. She discussed the General Fund which she said was funded by property taxes and discussed both the operating and non-operating sides of the budget.

The operating side of the current FY18 budget made up 78% of the total budget and of that, 83% was salaries and benefits. The non-operating side of the budget made up 22% of the total budget, she said.

She stated that property owners bear the burden of supporting services at the local level. The amount of revenue they can raise outside of property taxes was \$26.4 million. The Finance Director then explained how the tax rate was calculated, saying if the \$26.4 million was subtracted from the full budget of \$109.4 million, it left a gap for a property tax levy of \$83 million. She stated 77% of the revenue came from property taxes and noted that only 3% of the City's revenues came from the State.

The Finance Director mentioned the fiscal challenges on the revenue side of the budget as being diminished State Assistance in shared revenues, state aid grants and retirement contributions. On the expenditure side she discussed the challenges of rising contractual obligations such as Health Insurance, Retirement, COLA, etc. To address that, Portsmouth for the last 17 to 18 years had been working on long term financial planning to avoid break-even budget practices and major spikes from one year to the next, promoting stability in the tax rate and budget. The City has been able to do that by creating several long term financial plans and policies for both the operating and non-operating sides of the budget.

Finance Director Belanger described Fund Balance as being the equity part of the General Fund, and she discussed the five components of Fund Balance. As per ordinance, the City shall

annually maintain an unassigned fund balance between 10% and 17% of total General Fund appropriations. This was recommended by GFOA and the State of New Hampshire.

The Finance Director presented the history of Unassigned Fund Balance since FY07 and showed how the City had been able to gradually increase the percentage over the years, with 13% expected for FY17. She added that a healthy Unassigned Fund Balance had a favorable impact on bond rating. She shared that Portsmouth had a AAA Bond Rating from Standard & Poor's – the highest achievable level. One factor that aided in the City's stellar bond rating was the City's approach to managing debt as well as maintaining a healthy fund balance. She demonstrated how the City's bond rating has increased as Unassigned Fund Balance increased. She discussed the history of Fund Balance use, which had averaged \$2.8 million per year used to help offset the tax rate.

She discussed the Leave at Termination Stabilization Fund used for payouts for employees hired prior to 1996, who were grandfathered in to cash out accumulated sick time upon employment termination. This had been difficult to manage year to year.

City Manager Bohenko commented they had to show that liability on the City financial statements, and added they would have had an unfunded liability in the range of \$20-\$30 million if they had not addressed this. Many other communities were still in that situation, but Portsmouth was getting down to a manageable time.

Finance Director Belanger said negotiations with the 16 Collective Bargaining units was one part of correcting the increasing liability and the other was the creation of the Leave at Termination Fund. They did an actuarial study on employee attrition to manage and decrease the liability. Over the last several years, they've had appropriations within the departments that have remained flat, totaling \$875,000 for all the departments together. She displayed a slide that showed how the actual payouts worked for a fiscal year while the departments were able to continue to be level-funded.

The City Manager said in 1998 they had major spikes in leave at termination payouts, so departments either had to freeze their budget, or in June hold hearings to get additional appropriations, which was hard to manage.

Finance Director Belanger showed a history of the Stabilization Fund and how it stood presently.

Finance Director Belanger said Health Insurance had been another challenge which was hard to manage. She showed the history of Healthtrust premium rates and said a policy was put in place to use the 10-year rolling average increase for health premiums for each department, making the rate increase for FY19, 5.47%. The School Department is on SchoolCare, and those premium increases were approximately 7%. She said there would be a shortfall this year of close to \$1 million which would be paid by the Health Insurance Stabilization Fund, but that number could change.

The City has 16 collective bargaining units, and at this point, they had nine unsettled contracts.

The COLA adjustments were based on the 10 year rolling average of the CPI from November-November based off the Boston-Brockton-Nashua CPI. She said they estimated the number

would be 2.7%. Each contract has a provision which sets a COLA floor at 2 % and a ceiling at 5%. The CPI is estimated to be at 1.54% based on the 10-year rolling average. Therefore the departments are to factor in 2% for COLA adjustments for the contracts that were settled.

New Hampshire retirement rates are the same as last year. Increases would be effected by Step increases. Prior to 2010, New Hampshire contributed 35% to retirement for Police, Fire and Teacher personnel. The State reduced that gradually to 0%. That impact has affected the local taxpayers. Since 2010, this has impacted the City's budget by \$12.6 million.

The City Manager said it should be noted the Legislature still controlled the benefits, and on the retirement side the local control was limited.

The Finance Director said pension contribution was made up of three different areas. One of the areas was the unfunded liability and about 70% of this rate was to pay back the unfunded liability associated with the retirement.

Workers compensation will have an overall increase for the general fund of 5%, the overall City's increase was close to 6%.

On the non-operating side, the long term planning included the Debt Planning Policy which helps keep the debt burden at a manageable level.

Finance Director Belanger said the CIP was still in process, but City policy was to appropriate 2% of the prior year's General Fund budget, so they were estimating a little over \$2.1 million.

She displayed a slide on the long term borrowing policy, with having net debt service be no more than 10% of the annual General Fund budget.

City Manager Bohenko stated that benchmark was the City's failsafe. If they saw that line go up to 11%, they would go to the CIP subcommittee and talk about reallocating and reprograming certain projects. This was a good way for City Council to keep track of and control debt. The Finance Director added that this policy was looked upon favorably by rating agencies.

She discussed the Rolling Stock Program which kept the inventory of equipment and vehicles up to par.

At the next JBC they would present preliminary numbers, and said she and the City Manager would be working with the Fire, Police and School Departments.

V. Discussion of budget process going forward

Mayor Blalock began the discussion by recommending the elimination of the Saturday all-day budget work shop and returning to weeknight work sessions with various departments over a two to three week period to allow the Council to ask more targeted questions. The Council would follow all the provisions of the Charter, which would require completion and adoption of the budget by June 30, 2018.

Councilor Dwyer asked if it was possible to move the standard public hearing date towards the end of the workshop process. Additionally, Councilor Dwyer wondered if there was a way to hold a night for Police and Fire budgets, and subsequently hold a public comment session associated with that work session. She felt this set up would allow the Council to better concentrate on details as well as allow the Departments to speak to the public comments, creating a dialogue.

The City Manager stated the Charter required a public hearing be held before adoption of the budget. He felt it helpful to give a macro overview of the budget early in the process to offer both expenditure and revenue details not offered in the department specific work sessions. He recommended keeping the public hearing date as is while adding “listening sessions” to each of the department specific work sessions in May, each with a time limit. The City Manager suggested not having listening sessions at the final two budget work sessions stating this was the Council’s time to ultimately debate the budget as well as receive answers from the departments to questions raised during the previous work sessions.

Councilor Dwyer asked if the departments would still need their own public hearings prior to having this dialog session, and City Manager Bohenko said they must have it as per the Charter.

Councilor Perkins agreed with the return to the Charter process. She also stated she agreed with Councilor Dwyer regarding the public input opportunities at the department work sessions.

City Manager Bohenko framed the motion: To first have the Charter-required public hearing; second to hold work sessions with each department; third after each initial department work session hold a listening session with a time limit decided upon by the Council; and fourth, adjourn after the listening session took place.

The Mayor agreed that having a targeted work session immediately followed by a corresponding listening session would accomplish the Charter requirements.

Councilor Dwyer stated, she would rather do a four hour meeting and cover three-four departments at each work session.

City Manager Bohenko said in anticipation of this desired schedule change, he offered two schedule options for the FY9 budget. He suggested no listening sessions at the May 23 or 30th work sessions.

Councilor Perkins Moved: For this year, for the new budget process adopt Option 2 as a process and return to the Charter, which demonstrates they would have a work session with each department on their budget. She amended Option 2 to include an opportunity for listening or public input at each of the work sessions in May on these department budgets.

Commissioner Onosko requested fewer department work sessions than presented on the Option 2 schedule but the City Manager cautioned the length of the meetings as presented, especially including the listening sessions, would be quite long. Commissioner Onosko agreed and withdrew his request.

The Motion was seconded by Councilor Dwyer.

City Manager Bohenko said the logistics could be left in the hands of himself and the Mayor and requested each department let him know soon if the dates and times shown on the FY2019 Budget Schedule, Option 2 for the May work sessions were acceptable.

The motion passed unanimously.

VI. Opportunity for Public Comment

Mayor Blalock gave the opportunity for public comment.

City Councilor-Elect Rick Beckstead of 1395 Islington Street said he liked the work sessions, and they worked well. He said he had always asked that meetings be televised, as this was important to the voters.

VII. Next Meeting Date

The next JBC meeting date was scheduled for December 13, 2017 at 8:00am

VII. Adjournment

The meeting adjourned at 9:30 a.m.

Respectfully submitted,
Marian Steinke
Recording Secretary