

## **CITY COUNCIL WORK SESSION**

### **Tax Rate Policy Discussion**

April 12, 2010 – 6:30 p.m.

Eileen Dondero Foley Council Chambers

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City Council Present: Mayor Ferrini, Assistant Mayor Novelline Clayburgh, Councilors Lister, Hejtmanek, Spear, Coviello, Dwyer, Kennedy and Smith (Councilor Lister left the meeting at 7:00 p.m.)

Staff Present: John P. Bohenko, City Manager; Judie Belanger, Finance Director, and Valerie French, Deputy City Clerk I

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Mayor Ferrini called the work session to order at 6:30 p.m.

City Manager Bohenko distributed some charts that he and Judie Belanger had created to give some background on the tax rate. The charts consisted of a 10 year CIP History, Full Value Tax Rate Comparison (Equalized), Average Single Family Tax Impact, 2008 Comparison of Full Value Tax Rates, and a Tax Rate History for the past 10 years. He stated that they have tried to keep the budget stable and predictable to avoid spikes and have set up stabilization funds to fill budget gaps. He stated that last year the Council made a concerted effort to keep the rate down. He explained that it came in at an 11% increase but would have been smaller except for the loss of State revenue. He stated that this year the State motor vehicle revenues are also down and there is the loss of subsidy in the retirement fund and again the budget will be affected by these losses. He explained that over the past several years there has been a decrease of 23 positions citywide including the reduction/elimination of 10 positions in FY10.

Mayor Ferrini stated he provided the Council with copies of articles regarding state and local pensions and the State of California financial woes. He stated these are just informational items to further illustrate that there are areas that the Council cannot control even with careful management. He then opened the floor for discussion.

Councilor Spear referred to the graphs presented by the Manager stating that it would be more informative to have equal comparisons as one chart shows FY02 to present and another starts at FY05. City Manager Bohenko stated that the information that is most important is on Chart 3 which shows how we stack up against other cities in the State because property tax is 70% of revenues raised in New Hampshire.

Councilor Kennedy referred to the 2008 Comparison of Full Value Tax Rates chart prepared by the NH Dept. of Revenue Administration stating Portsmouth is ranked 64<sup>th</sup> and asked how do we get to be the lowest ranked.

Mayor Ferrini stated that Salem is listed at 47<sup>th</sup> and has a population of around 40,000. Councilor Dwyer stated they are a town. City Manager Bohenko stated that as a city, we provide more services.

Councilor Dwyer then explained that she feels that the issue is confusing as there are people who are willing to pay more to keep the services they want and others who feel any increase is too high. She continued to discuss the tax burden for New Hampshire taxpayers and specifically Portsmouth taxpayers and the factors and variables that have to be considered every year.

Mayor Ferrini explained that another thing to consider is that ratio of commercial value in the City of Portsmouth is higher than in other communities which is good in the good times. City Manager Bohenko stated that it feeds on itself because with more commercial and business growth, it brings in more residential growth as well which requires more city services.

Councilor Coviello stated that we should keep in mind that commercial businesses can easily relocate to other areas if their tax bills become too high. City Manager Bohenko stated that he feels that businesses also look at the predictability, stability and bond ratings when making their decisions of where to locate. Councilor Coviello then addressed the Capital Improvement Plan stating that he looks forward to funding the FY10 plan because we are paying the price for not funding it properly in the past.

Councilor Kennedy stated that the people who are calling her are under a lot of pressure and we need to consider everything that they need to pay including water, sewer, vehicle registration, dog licensing etc. that are all additional burdens that need to be included in the CPI. She then stated that regarding the CIP, she feels that we should maintain the existing infrastructure but should hold off funding anything new. She stated that we know that we aren't going to get more money from the State in the future, so the County is the only real unknown so she would like to see a forecast put together for the next 10 years which includes all of the aforementioned items. City Manager Bohenko stated that the motor vehicle fee is set by the State and they would have to decide on average factors, but yes they can put that type of information together.

Mayor Ferrini stated we still don't know if the State will take away even more in the future. City Manager Bohenko stated another fly in the ointment for FY12 is if the legislature leaves the formula alone for school funding, we will continue to be in a plus situation, if they tweak it, we will be in the donor column.

Councilor Hejtmanek referred to Chart 2 stating that those were booming economy years and even if the economy gets better, the middle class is projected to have zero income growth in the next 10 years. He stated that the private sector cannot continue to pay for public salary increases when they aren't getting any themselves.

Councilor Dwyer stated that she feels a longer term solution is looking at efficiencies in labor which is driving up our costs. She stated that Portsmouth also has an exaggerated bi-variant economy with some very high end and some very low end which gives a skewed view. Councilor Hejtmanek stated that government is pricing itself out of business and although no one wants to eliminate services, we have to do something. City Manager Bohenko stated that over the last 2 years 34 positions have been eliminated and at some point we end up with a diminished return in the community and it affects quality of life.

Councilor Smith stated it comes down to how we deliver the services and to rethink how we do government. He stated that people enjoy our services but don't want to fall into a hole like the infrastructure. He stated we should be able to keep levels down without having to impose a tax rate cap like the City of Dover. He stated he looks forward to serving on the recently formed Operational Efficiencies Blue Ribbon Committee, but feels the Council needs to be careful when people call to ask them to vote one way or another and perhaps ask them for suggestions of where they would like to remove money if they want a particular service to remain. He stated that people who say they are willing to pay more taxes should make donations to their local PTA, the library, etc. and feels the Council needs to come up with a predictable and level tax rate.

Mayor Ferrini stated that our Economic Development has done nothing but good for our tax base but feels we have to look at what we can't predict i.e. the State and balance that with how much we should do this year to cover what may happen next year. Councilor Coviello stated he appreciates the "soft-landing" concept but feels we have to keep in mind compounding interest in future years.

Assistant Mayor Novelline Clayburgh stated she wants to try to come up with a figure or a range of what people can afford/absorb. City Manager Bohenko again stated that we need to be predictable and stable at around 40-50 cents and feels that if we come in too low, there will be a diminishing return in values. He stated the values of our homes have held over well and the Assessor has done a great job keeping our ratios in place and without stability, we would see a drop in 4-7 years. Councilor Hejtmanek stated that during the Middle School bonding discussions, there were other developments that were mentioned that didn't come through.

Councilor Spear stated that the Council has recently been setting policies and wants to mention 4 philosophies that he feels should be and have been considered during budget deliberations including;

- Maintain/build infra-structure
- Never over-estimate revenues
- Never under-estimate expenses
- Don't dip into fund balance for operating expenses

Councilor Dwyer further discussed the bi-variant issue stating that confidence is important and is what brings new businesses to the city. She stated the businesses then bring in employees etc. She stated the high-end condos are a growth industry in Portsmouth and feels that we don't want to give wrong signals to those who can help us out of this downturn. She related a story of someone who relocated to Portland Maine instead of Portsmouth because of the condition of the Middle School and stated this is why we need to maintain our infra-structure. Mayor Ferrini agrees that if we maintain our infra-structure it does send a message of confidence, but if there is a situation where operating and labor costs are challenged, he is inclined to look at the operating side versus maintaining the confidence level of the community.

Councilor Spear referred to the sewer bills that were going to be going up by \$1,000.00 and wants to err on the side of a lower tax burden in line with inflation and to keep those costs in mind in future planning. Councilor Spear then asked about the stabilization funds for health care and could one be established for future step increases when new people are hired. City Manager Bohenko stated the point of the stabilization fund for the health care was for it to eventually expire and that the step increases are true operating costs. Councilor Spear stated he wants to point out that hiring people at the bottom step seems like a great deal, but that the costs do go up.

Assistant Mayor Novelline Clayburgh asked the Assessor what is the average family home value in Portsmouth. Assessor Maurice-Lentz replied \$344,594.00 for a single-family.

Councilor Smith asked where Portsmouth stands in the unemployment rate. City Manager Bohenko stated the city rate is at 6.2%, the State is 7.2% and New England is 9.8%. Councilor Smith continued that we need to keep our eyes on other State issues i.e. the LLC tax which affects small businesses as well as the unknowns of the recently passed health care bill. He stated it is nice to have stabilization but we have to keep a watchful eye on the County and State.

Councilor Spear asked if it would be appropriate to gradually raise the sewer rates to build up capital. City Manager Bohenko stated he proposed to do that back in 1999, but it didn't go anywhere and that he has been very careful in looking at all the rates so that both rates aren't raised at the same time. He stated there will be an increase in the water rate this year because of the new water plant.

Councilor Kennedy stated she is trying to find the 2% rule and how it will affect the whole question. Discussion ensued regarding the various rates and the effect on the tax rate. Mayor Ferrini stated he feels we should always be looking at a total tax number as part of keeping stability. Councilor Kennedy then discussed parking ticket revenue asking if the revenues are going to the right resources because when our police officers are writing traffic tickets, that revenue goes to the State of New Hampshire. City Manager Bohenko stated that 78% of our revenue comes from property tax and does agree that the Parking revenues should be going into an Enterprise Fund which is slowly being done so that when a new parking garage is built it will be self-funding. Kennedy stated she actually meant that not all of that money needs to go back to Parking and should be going into the general fund.

At 7:50 p.m., Mayor Ferrini closed the meeting.

Respectfully submitted by:

Valerie A. French,  
Deputy City Clerk I