

CITY COUNCIL WORKSHOP
September 15, 2015
COUNCIL CHAMBERS
7:01 PM

COUNCILORS PRESENT

Councilor Bogan
Councilor Collins
Councilor Gates
Councilor Gray
Councilor Hamann
Councilor Keans
Councilor Lachapelle *
Councilor Larochelle
Councilor Lauterborn
Councilor Torr
Councilor Varney
Councilor Walker
Mayor Jean

OTHERS PRESENT

Deputy City Manager Blaine Cox
Terence O'Rourke, City Attorney
Ray Barnett, Resident

* *Councilor Lachapelle arrived at 7:18 PM*

MINUTES

1. Call to Order

Mayor Jean called the Workshop to order at 7:01 PM. Deputy City Clerk Marcia Roddy took a silent roll call. All councilors were present, with the exception of Councilor Lachapelle, who arrived at 7:18 PM.

2. Public Input

Prior to beginning Public Input, Mayor Jean took a minute to reflect on the life of Charles Gerrish, Sr., who had recently passed away. He said that many members of the community will remember Mr. Gerrish as a former member of the City Council and a long time public servant in the City of Rochester. On behalf of the City Council he extended heartfelt sympathy and condolences to the Gerrish family.

Mayor Jean invited members of the community who wished to speak on City issues to come forward.

Doris Gates, resident, spoke against the request by the Superintendent of Schools and the School Board to have the City Council establish a school building capital reserve fund. She provided several examples, both orally and with

documentation, to support her argument. One of her major issues concerned money expended for space studies.

human, resident, spoke on the New Hampshire Right-to-Know law. He said he has submitted requests for information, in particular a copy of the City Charter. He asked that the information he has requested be provided within 48 hours of the meeting or he will pursue other avenues of having the City comply with his requests, such as bringing legal action or seeking a seat on the City Council.

Ray Barnett, resident, spoke on the capital bond project financing that is on the agenda for discussion later in the meeting. He questioned where money is coming from for projects. He asked about the School Department's request for either level debt or level principal financing.

(Councilor Lachapelle arrived at 7:18 PM)

Councilor Gray commented on the remarks made by human. He said he had informed human that the documents requested were ready and available and human should contact the City Attorney. Councilor Gray said that he did not believe Right-to-Know requests needed to be scanned and/or e-mailed, but that a link to the requested information is available for public access on the City's website or through the City Attorney's office.

Councilor Gates asked if the City receives a Right-to-Know request and the information being requested is available on the City's website, is the City required to make a hard copy of the information, or is telling the requestor that the information is available on the City website enough. City Attorney O'Rourke said that telling the requestor that the information is available on the City Website is enough.

Councilor Varney addressed Mr. Barnett's remarks regarding the Health Trust funds budgeted in the School Department budget. He said that the School Department knows in advance that there will be a refund from Health Trust and it is built into their budget. They are not overspending their budget as the funds are offset. The City's budget differs in that any refund from Health Trust is not part of the budgeting process and any refund goes into the Fund Balance.

Mayor Jean closed Public Input at 7:21 PM.

3. Communications from the City Manager

There was no discussion.

4. Communications from the Mayor

Mayor Jean announced that Ward 1 would be having a ward meeting on Wednesday night, September 16, 2015, at 7:00 PM at Tara Estates. He reminded the

citizens of Ward 1 that the new polling location will be at the Tara Estates community room.

5. Discussion: AB 38 East Rochester School Project Bond Financing

Mayor Jean said that the Finance Office was contacted to look at the bond structure for the East Rochester School project. He said there are two options available for financing it:

- there is "level debt" in which there is an annual debt service payment that is the same every year for a 20-year term; and
- there is "level principle" in which the annual principle payment remains constant while the amount of interest decreases as the amount of the principle is paid down.

Mayor Jean went on to explain the main difference between these options is that the level debt option carries with it the amount of \$528,000 in added cost vs. the level principle. He said that historically the City has funded everything by level principle, but the School Department has asked that the other option (level debt) be looked at as it would allow the School Department more flexibility in its debt service payments over the course of the 20-year bond.

Dan Harkinson, Chair of the School Board, addressed the City Council on this matter. He agreed with Mayor Jean's explanation of the two manners of debt service, especially the level debt option cost of an additional \$528,000 (unadjusted for inflation). He said that historically all of the existing bonds have been done that way.

Mr. Harkinson wanted to point out that they were asked to tell the Council whether they would prefer to do the funding through a level debt option or a level principle debt service payment. He said that in the first six years of a level principle payment the District would pay an additional \$600,000 out of the District's budget. He emphasized that to do this with the fewest dollars then level principle is the best method. He said it will impose a burden on the District that could be minimized in early years by going with level payments. Mr. Harkinson said he has observed over the last five years or so there have been historically low inflation rates in the country, but that inflation will be back some day.

Mr. Harkinson said that the City Treasurer will ultimately have the final decision, but that the City Council will tell the Treasurer what to do.

Councilor Varney pointed out that when the school bonding was discussed back in 2013 one of the issues was that the School Department had a lot of debt and they were unable to issue the bond on the school in the first year. What happened was that they ended up with a \$60,000 bond anticipation note. The actual bonding of the school construction was put off for a year for that reason because the debt service would not

fit. The debt service that was shown at the time in FY17 for the East Rochester School was \$1.2 million. He said that it may have been assumed at that time that a level principle arrangement was scheduled into the School Department's debt service for the next 15 or 20 years. This would be a substantial change from what was approved and \$500,000 is a lot of money over the next 20 years. He said it is not realistic to do that and they should stick with level principle.

Mayor Jean asked Deputy City Manager Cox why there is this level debt/level principle discussion at this time. Mr. Cox said that they have always budgeted debt level principle in order to reduce costs.

Mayor Jean questioned Linda Casey, School Department Treasurer, if there are any components of state building aid that will be going "off the table" in the coming years that will impact the operating budget. Ms. Casey said yes, in 2017 the building aid revenue will decrease from \$800,000 to about \$200,000, losing about \$600,000 in revenue starting in 2017.

Councilor Gray asked Ms. Casey why that is happening. She said that there was a \$10 million Honeywell project, Phase I and Phase II, that the last debt payment is in 2016. There will be about \$1.1 million in debt payments coming off, as well as the building aid that was helping to make those debt payments over the last 20 years.

Mayor Jean asked for a **SENSE OF COUNCIL** on how to proceed with the manner of approaching the debt service. There was a majority vote to go forward with the level principle approach.

6. Discussion: AB 40 School Building Capital Reserve Fund Request

School Board Chair Dan Harkinson said that the goal of this request is to save a significant down payment on the next substantial school building project. He said that it is inevitable that Rochester will have another school building project sometime in the future.

Mr. Harkinson said that the most immediate need is to move classrooms out of the modules. Both Chamberlain and Allen have 4 module classrooms each that are approaching their life expectancy. He praised the recent remodel of East Rochester School and what a terrific learning environment it has become. He said space studies have been done and there are sample proposals from architects contained in the studies. The School Department's building committee met recently to start the process of looking into what is needed. The next step, he said, is at least several years away. This includes a joint building committee with the City Council and School Board.

Mr. Harkinson pointed out that State building aid has disappeared with regard to routine school building projects. He said this Capital Reserve Fund project is to basically save up for a down payment on future school building projects. The proposal would allow for 1/2 of the School budget surplus to go into this fund. State law

mandates that this fund could not be touched [by City Council or the School Department] once it is designated for this purpose.

Mr. Harkinson pointed out that rebuilding the smaller elementary schools would cost far less than closing those schools and building a new elementary school to service the students from those schools. He reiterated that the proposed School Building Capital Reserve Fund is strictly for building a cash reserve for future building projects.

Councilor Varney asked how this would differ from the General Fund of the City. He added that the Council has authorized expenditures from the General Fund on many occasions to supplement needs of the School Department, such as security needs, additional special education costs, among other needs. Mr. Harkinson agreed with Councilor Varney; however, he said it is necessary to set aside money for larger expenditures on a year-after-year basis to have it available.

Councilor Lauterborn said she is not familiar with how capital reserve funds work and said, having been skeptical about this proposal, that Mr. Harkinson gave a very compelling argument. She asked if this money would be invested and allowed to grow while it sits waiting to be used. Mr. Harkinson said that the money would be in the custody of the Trustees of the Trust Fund and that when the Council wants to spend it for one of the purposes for which it has been diverted that the Council has to take a vote on how to direct the Trustees to release the money.

Councilor Walker asked what would be the Tax Cap implications on this money, whereas the General Fund is the only extra money now. Mr. Harkinson said this would be part of the School Department's operating budget and they would have to work within the tax cap.

Mayor Jean said that this would not have any Tax Cap implications as the actual contribution to the fund by the School Department would be done within its budget. The School Department would have to come up with cuts in their budget in order to fund the reserve. There would be an annual contribution to the fund and an additional contribution of 50% of the budget surplus would be added. He explained that this is how the fund would grow.

Councilor Walker asked if the \$500,000 that the School Department would be contributing would be discretionary or mandatory. Mr. Harkinson said what he thought Councilor Walker was asking is does the Board always have to vote for \$500,000 and the answer is no. He said they can't pass an ordinance, rule, or regulation that would tie the Board's hands. He said there are Board members who will do the hard work to look for areas to cut in order to raise the funds, and other members who are not ready to do that.

Councilor Walker said that cutting personnel from the School Budget would probably hurt the District more. Mr. Harkinson said that there will be cuts necessary and it will be hard, but in the long run it needs to be done. He added that there are

bond rating companies that love this "stuff" as it shows prudent planning on behalf of the community.

Councilor Gates asked Deputy City Manager Cox what the current balance is in the City's "rainy day" fund. Mr. Cox said the "Undesignated Fund Balance" (as it is called) is currently at \$13.8 million. Councilor Gates asked if money had been taken from that fund balance to get work started at the East Rochester School and then start the bonding process. Mr. Cox said that is not how it works.

Councilor Gates questioned Mr. Harkinson about the "down payment" that he has referred to regarding major building projects. Mr. Harkinson likened it to a person saving up to buy a house and having a down payment on the house. In this case, the reserve funds used would reduce the ultimate cost of the building.

Councilor Varney said that by putting half of the School Department's contribution to the General Fund into a separate fund would mean that the City would have to make significant cuts elsewhere to make up the difference. He is not in favor of reducing the Fund Balance and the flexibility needed in other areas. He questioned where the \$500,000 would be coming from in the School Department's budget.

Mr. Harkinson responded to Councilor Varney's question by saying that he came up with the number and wanted to set the goal high. He said by not aiming high nothing would be achieved.

Councilor Keans said that both sides of the argument are very compelling. She said that the economic scene is a constantly changing matter and that the City should be speaking with experts in this area before making any decisions.

Councilor Hamann asked how can the School budget sustain such a major cut in order to do this. In addition to the loss of \$600,000 in State revenue, that would mean a \$1.1 million dollar loss in the budget. Mayor Jean said that the reduction in building aid will also have a reduction in debt service, so that will be offset.

Councilor Gray affirmed the Mayor's comment on the debt reduction offset.

Mayor Jean explained some of the usage of the Undesignated Fund Balance. For example, the pedestrian bridge on Route 125 that needs immediate repair will cost approximately \$250,000, and expenditure to be made from the Fund Balance. The Fund Balance has been used for other immediate expenditures. He said that the reserve fund as proposed by the School Department will allow them to have some control of surplus funds. He agreed with the School Department's opinion that there will no longer be any State assistance in the foreseeable future and the City needs to plan and budget accordingly. He asked Mr. Harkinson if he is aware of any other community that may have implemented this type of capital reserve fund. Mr. Harkinson said he is no aware of any.

Councilor Collins said he has always felt it to be prudent to have some sort of "nest egg" and this might be a start, but added that he does not feel qualified to make a decision on this. He complemented all of the evening's speakers and sees that most people want what is best for the community.

Councilor Gates asked if there would be any action on the School Department's request. Mayor Jean said no, this was a presentation by the School Department and they should go forward with due diligence and speak with other experts to make a fully informed decision.

Councilor Gray suggested assigning the funds to a capital project and leaving the funds there until the project is done. This would assure that the City has control of the funds instead of moving it to some outside activity or organization. He would like this to be considered and thus have two options for a capital fund.

Mayor Jean said that this is a matter for discussion at the Finance Committee meeting and suggested referral to that committee's October agenda. He asked that Mr. Cox look throughout the state for any other community that may have used this process. He asked that the Finance Committee have a recommendation ready for the City Council's consideration and discussion at the November 4, 2015, meeting.

7. Discussion: AB39 Branding Initiative, NH Listens and Rochester Rotary

City Manager Daniel Fitzpatrick informed the City Council of the Rochester Rotary's project for the year. He said it is called "Rochester Listens," a group that would be part of other listen groups throughout the state. The Rochester Rotary Club thought that this would be a good pilot program for the Rochester community. He announced that there will be a training opportunity on Frisbie Memorial Hospital on October 9, 2015. He said this is valuable facilitation training to help people work through issues.

Mr. Fitzpatrick said he would like to explore the city-wide branding project and the "listen groups" would be an approach to this. There would not be any expense to the City and no major commitment. He asked the City Council to allow him to explore this program and the branding initiative.

8. Discussion: AB41 Capital Projects Bond Appropriations Analysis

Blaine Cox, Deputy City Manager, reminded the Council that some of the information shared during the budget development process in May and June included the fact that the City is approaching its statutory debt limitation. The statutory debt limit is 3% of the total net assessed value of the City, which is a State limit. At the time of the budget process, the City was about \$19.7 million under that statutory limit. As a result of the FY16 budgeting process, the Council appropriated another approximately \$10.1 million, thus being about \$10 million under that cap.

Mr. Cox said that the City could probably appropriate on average \$4-5 million in additional capital project appropriations and remain comfortably under that limit.

Mr. Cox said that the sheet he had handed out before the meeting was a summary of what has been appropriated but not bonded to date or expended. He pointed out that there is a list of projects that have not been started yet; others that are in the process; and others that may be quite far along. He said he had put the list together without consulting with Public Works, but will leave that up to Commissioner Storer to clean that up.

Additionally, Mr. Cox said that he had been asked by Councilor Hamann what is the difference between bond and borrow. He said that is a change in wording that was done for the resolutions in order to give the City more flexibility in funding projects.

Councilor Varney asked Mr. Cox if the \$4 million that was mentioned includes water and sewer project. Mr. Cox says it does not; those have separate limitations.

Councilor Lachapelle asked if this list is based on requests that can potentially be pushed off. Mayor Jean said no. This is a list of projects that are currently in the pipeline, knowing that what was approved in the CIP is unsustainable in the long term. In order to do all of the projects the way they are being done now would probably bind the City. The Finance Committee has already looked at this and it will go to the Public Works Committee. Mr. Cox added that the debt service is projected over the next ten years, after which a lot of it will be retired.

Councilor Varney asked if Commissioner Storer would be categorizing projects as to need to, should do, prioritizing, etc.. Commissioner Storer said he will be working on this and hopes to have the data ready for next month's City Council Workshop meeting.

Councilor Keans asked if she were to compare this list with the current budget book they would match up. Mayor Jean said that was correct.

Mr. Cox pointed out that there are some projects that are designed to require studies.

Councilor Keans announced that the Governor's Council will be at the Frisbie Memorial Hospital Conference Center at 6:00 PM on Thursday (September 17, 2015) to discuss the State's 10 year highway plan.

Councilor Lauterborn asked why there is no notification to the public as to the Governor's Council meeting. She wondered why there is little to no advertising; don't they want the public to know about these meetings? Commissioner Storer and some of the Councilors had received e-mails from the Strafford Regional Planning Commission, but he thought the meeting was geared toward technical staff.

Councilor Keans said it would be helpful if the City solicitor could write up an explanation of the State law that refers to capital reserve funds. Mr. Cox said that some time ago there was a woman from the State who would go to communities and give presentations on capital reserve funds. He said he will contact that office and see if he can line someone up to do that.

9. Department Reports

No discussion.

9. Adjournment

Councilor Lachapelle **MOVED** to **ADJOURN** the Workshop Meeting at 8:30 PM. Councilor Walker seconded the motion. The **MOTION CARRIED** by unanimous voice vote.

Respectfully submitted,

Marcia H. Roddy, NHCDCC
Deputy City Clerk