

## Finance Committee

### Meeting Minutes

#### Meeting Information

Date: October 9, 2018

Time: 7:00 P.M.

Location: City Council Chambers

31 Wakefield Street Rochester, New Hampshire

Committee members present: Mayor McCarley, Deputy Mayor Varney, Councilor Walker, Councilor Gray, Councilor Lauterborn, Councilor Keans and Councilor Torr.

City staff present: City Manager Cox, Interim Finance Director Connors, Senior Accountant Sullivan, Fire Chief Klose, and Director of City Services Peter Nourse.

Others present: Ray Barnett.

#### Agenda & Minutes

##### **1. Call to Order**

Mayor McCarley called the Finance Committee meeting to order at 7:00 PM.

##### **2. Public Input**

Ray Barnett, resident, addressed the Finance Committee regarding impact fees and host fees.

##### **3. Unfinished Business**

No Discussion

##### **4. New Business**

###### **4.1 RHA Offer to Sell 59 Columbus Avenue**

City Manager Cox stated that this agenda item was just to get a sense of Council to see if there was interest in following up with the Housing Authority regarding the sale of the property.

Councilor Gray said that he felt that looking into this property and any other properties in this area would be reasonable, since they are all part of the Municipal block.

Deputy Mayor Varney said that he felt the only value in purchasing this property would be if the City intended to reconfigure the intersection of Columbus Avenue and Summer Street. DPW would need to see if 59 Columbus Avenue would have any impact on this project.

Councilor Keans suggested checking with the Railroad Authority as well, to ensure that there are no restrictions or issues with constructing turning lanes in this area. This item was referred to the Public Works Committee for review.

#### **4.2 Rochester School Department – FY20 Budget Guidance – Superintendent Hopkins**

School Superintendent Hopkins reported that the school department will be building their budget soon for the upcoming fiscal year. Part of this process is looking at revenue and whether the Waste Management host fees would continue to be equal to what was provided by the City in FY2019 or if the School Department would need to look at other sources of revenue.

Deputy Mayor Varney asked if the estimated fund balance increase would be \$1.1 million. Interim Finance Director Connors stated that the estimated increase would be approximately \$1.5 million which is subject to change based on whether or not the City receives FEMA funds from the March 2018 storm.

Deputy Mayor Varney stated that there is a misconception regarding Host fees. He said the Host Fees do not pay for school, they go into the General Fund. The revenue for the School Department budget is pulled from the General Fund, not the Host Fee directly. He continued that he felt the City should support the school budget at least at the same level as the previous fiscal year. If the fund balance increase comes in at \$1.5 million, half could go into the School Building Capital Reserve fund which would be \$750,000. In this case, there would be far less for the City to make up than they had the previous fiscal year.

Mayor McCarley inquired when the audit would take place. Interim Finance Director Connors stated that the auditors would be working the week of October 22<sup>nd</sup> and the week of October 29, but the draft audit will not be available until the end of December. The finalized audit will then go to Council before the last day of January.

Councilor Gray inquired how much the potential FEMA fund could increase the Fund Balance. Mr. Connors stated that although he didn't have an exact number, he estimated it could increase by approximately \$50,000.

Councilor Gray asked how far above the ordinance limit the undesignated fund balance is currently. Mr. Connors stated that the current estimate is that the City is currently at 18% of general fund expenditures. Councilor Gray asked at what percentage the ordinance stated the fund balance should remain. It was stated that the ordinance called for approximately 5%-8%.

Councilor Gray suggested that City Council could take \$2,000,000 out of undesignated fund balance and apply it to reducing taxes prior to the State setting the tax rate, thus eliminating the tax cap override.

Deputy Mayor Varney asserted that using the undesignated fund balance to offset taxes would set the City back to where they were last year. The following year they would have to make up for the \$2,000,000 and then some.

Councilor Walker asked how much the City would receive from Host Community fees in FY19. Interim Finance Director Connors reported that the estimate is \$2,700,000.

Councilor Lauterborn referenced a section in the Standard and Poors Bond Rating report which stated their assessment of the City's budgetary performance could be reduced if the General Fund balance fell by greater than 1% in a fiscal year.

Councilor Gray also suggested that if the City receives the \$1,500,000, plus an additional \$50,000 from FEMA, the amount coming out of fund balance would be less than the 1% which Councilor Lauterborn referenced.

#### **4.3 Water and Sewer Working Capital Analysis – Senior Accountant Mark Sullivan**

Senior Accountant Sullivan gave a summary of the Water and Sewer Funds working capital and cash equivalents. He reported that in FY 17, the funds were very strong. In FY18, there is going to be a negative balance due to the timing of bond issuances and projects in process. This negative balance is not a bad thing. Once the bonds are issued and the proceeds come in, the balances will return to the positive side. There will also be a negative balance forecasted for FY19 because the projects completed were greater than what was predicted and subsequently bonded. This will even out at the next bond issue and the numbers will return to the positive.

#### **4.4 Water and Sewer User Rate Methodology – Senior Accountant Mark Sullivan**

Mr. Sullivan said that in 2016, the former Director of City Services had given staff a directive to start looking at amending user rate billing methodology. The process was never completed but had recently been brought up again and was discussed with the Utility Advisory Board (UAB). The UAB did not recommend the change to methodology unless there was a compelling reason to do so, which is the purpose of the discussion this evening; to determine if staff should put more work into this or if the current volumetric system is sufficient.

The previous Director of City Services had suggested debt service should be evenly distributed among all customers, giving all customers a flat rate and reducing the volumetric component. The current system uses a minimum bill amount with reduced volumetrics to determine the invoiced amount. The decision comes down to a philosophy on how to define equitable distribution of water system costs.

Mr. Sullivan clarified that "reduced volumetric" would mean taking the debt services and assigning it as a flat rate over all customer accounts. This would take care of \$2,500,000 worth of revenue which has to be raised. The rest of the revenue would need to come from

volumetrics which would likely reduce the usage rate by a couple dollars. There would be two components to each bill with this system: The flat rate for capital costs and a separate payment for actual water used.

Councilor Lauterborn stated that this proposed billing structure would not be equitable for the low volume users, those living alone or conserving water. Mr. Sullivan confirmed that for the low-volume user, their bill would double with this system.

The general consensus of the Finance Committee is that the equal distribution of debt service with reduced volumetric was not a methodology that should be explored further.

#### **4.5 Granite State Business Park (GSBP) Water Loop Project – Director of City Services Peter Nourse**

City Manager Cox reported that when the City looked at funding the GSBP water loop project, based upon financial analysis, finance staff determined that the increment for the TIF would accommodate about \$1,000,000 worth of the project leaving \$600,000 for which alternative revenue would be needed.

Deputy Mayor Varney stated that funding which comes from the General Fund into the TIF is a loan needing to be paid back. Otherwise it would appear that the TIF is not paying for itself.

City Manager Cox said that it could be assumed that once the water loop is in place, the City would be more likely to be able to market and sell lots in the park and the proceeds from these sales could also be used to offset the expenditure.

Councilor Keans remarked that the water going to the Industrial park comes off the tower on the hill. She inquired if part of the problem was the size of the service line going into the park and wondered why the existing lines couldn't be extended.

Director of City Services Nourse confirmed that the existing service line was not large enough to provide sufficient water to the lots. There had been backflow issues when the line was recently tested.

Councilor Walker **MOVED** to recommend to full City Council that \$600,000 come from General Fund balance into the TIF for the Water Loop Project. Deputy Mayor Varney seconded the motion.

Deputy Mayor Varney asked if this expenditure would be created by a bond as opposed to a \$600,000 cash extraction from Fund Balance. Mr. Connors stated that if it was going to be bonded, the appropriation could be based on the bond source. Deputy Mayor Varney said that the City is asking the Water Fund to supplement the TIF in the amount of annual bond payments. If there is a land sale down the line, it could change the funding source.

Councilor Gray asked for clarification on how the reimbursement would occur. If the Water Fund is responsible for the \$600,000 and the City is going to reimburse following potential sale of property, the revenue generated from the property sales would not go back into the Water Fund. Councilor Gray stated the TIF either pays for itself or it doesn't, but it shouldn't be dependent on sale of property. He questioned how the funding for this project could come from anywhere other than the Water Fund.

Interim Finance Director Connors stated that the appropriation would be to the Water Fund CIP with a source of bond. When it comes time to sell the property, Council can change the funding source from bond to cash.

Councilor Walker discussed the original plan, which was for the funding source to come from the State so the citywide water rate was not affected by what the industrial park is doing. Because this funding didn't come through, this is now urgent because of the fire flows in the area. This may be the only way to expand the industrial park.

Mr. Sullivan said that although the Water Fund was in good shape, it was not healthy enough to provide \$600,000 to fund this project. Bonding would be equally complicated. In May, the sense of the Finance Committee was they didn't want the Water Fund picking up any of the cost of the water loop if possible. The only other way to do this is to have General Fund commit to the \$600,000.

The **MOTION CARRIED** by a majority voice vote to send the recommendation for a \$600,000 supplemental appropriation from General Fund fund balance to the full City Council.

#### **4.6 Standardizing Fire Department Fleet – Fire Chief Mark Klose**

Fire Chief Klose gave a brief presentation asking for input from the Finance Committee regarding having Toyne Fire Apparatus be the sole vendor of Fire Engines for the future of the City of Rochester.

Chief Klose gave a rundown of the benefits of having Toyne as a sole vendor: There is already staff in-house specifically certified who can perform maintenance on the Toyne's. The chassis, motors, cabs, compartments, etc. on each of these would be the same, the training would be the same for all vehicles, and if the vehicles do need to be sent out for repair they will only need to go to Milton as opposed to Maine or Massachusetts as would be necessary with the other manufacturers.

Councilor Keans stated that the Fire Department is not buying vehicles frequently. Several years down the road, the department may prefer another vendor over Toyne.

Deputy Mayor Varney concurred that the Fire Department may opt to choose another vendor the next time they need to purchase a vehicle, and it is not necessary to choose a sole vendor. He stated that if the Fire Chief and City Manager wanted to specify Toyne as the department's vendor this year, he is fine with that decision. In future years, the Fire Department should research and determine if Toyne or another manufacturer is the best choice.

Councilor Lauterborn agreed and expressed concern that choosing a sole vendor could cause the City to lose leverage with the chosen vendor. The City Manager stated that he and the Fire Chief had received the direction that they were seeking.

## **5. Reports from Interim Director of Finance & Administration Connors**

### **5.1 Update on FYE18 Estimated G/F Unassigned Fund Balance**

### **5.2 Standard & Poors Rating Agency Report and Comments**

Interim Finance Director Connors stated that the Standard and Poors agency sent two analysts to Rochester. The Report is very favorable. Mr. Connors directed everyone to a summary page of the report where there is a downside scenario and an upside scenario listed which is all in regards to Fund balance.

Councilor Keans inquired if the City anticipated hearing from the other two rating companies. Mr. Connors said the city received a recommendation from the financial advisor to use only one rating agency for a bond issuance of this size. The cost of the Standard and Poors rating was \$15,500. The financial advisor normally recommends using both Moody's and Standard and Poors if the amount to be borrowed is over a certain amount.

### **5.3 Report on August 21<sup>st</sup> Bond Sale**

Mr. Connors gave a brief overview of the report which shows the principal amount borrowed, which was just over \$8,000,000. The total amount needed was \$8,700,000. However, there was interest from 10-12 bidders and the winning bid included a substantial bond premium paid to the City of over \$700,000. This bond premium was enough to offset the costs of issuance of the bonds, the underwriter's discount fee as well as to downsize the amount to be borrowed. The true interest cost after all costs are taken into consideration was just under 2.8%

### **5.4 Report on Tax Deeded Property**

The balance at end of August of City-owned tax deeded properties was \$1,385,000. These are properties on which the City needs to make a decision whether to sell or whether they can be redeemed by the previous owner.

Councilor Keans asked for clarification on the note in regards to the Spaulding Avenue property which states "monthly payment per court decision." Mr. Connors said that the

owner is required to make a \$10,000 monthly payment towards his back taxes and penalties in addition to keeping current with the taxes going forward. This decision came out of bankruptcy court.

### **5.5 Report on Sale of City Property**

Mr. Connors said that this is a new report which will be presented monthly to let the Committee know which properties the City is selling.

### **5.6 Monthly Financial Report**

Mr. Connors stated that the financial report shows that the City is trending to the FY2019 budget with the exception of Fire Department overtime, which is trending higher than budgeted.

Councilor Keans inquired about a line item on the revenue chart for the dispatch center and asked how dispatch would generate money. Mr. Connors clarified that the revenue is from Frisbee Memorial Hospital which pays for one entry-level dispatcher.

## **6. Other**

Deputy Mayor Varney asked Councilor Walker for an update on where the Planning Board is on Impact Fees.

Councilor Walker stated that the City has signed a contract with consultant Bruce Mayberry. Mr. Mayberry is currently working on updating the impact fee table.

Deputy Mayor Varney addressed the 6-year period to use exactions which had been discussed during public input. He stated that in past years, municipalities would take exaction money which would linger for many years and end up being used for something other than for what it was originally intended. An exaction is supposed to be spent on the project for which it was originally appropriated.

Councilor Lauterborn indicated there would be a request coming to the Finance Committee from Bridging the Gaps. Bridging the Gaps had a grant from 2008 – 2018, but they have been unable to obtain funding going forward. They were unable to get more than a 6-month extension from the federal government. Due to the lack of funding, Bridging the Gaps will come to an end in March 2019. The director of the program is a City Employee, so the City will be responsible for unemployment payments.

Councilor Gray stated that the request the Committee will see is a supplemental appropriation for just over \$16,545. The intent of this supplemental appropriation would be to pay the salary of the program's director through the end of the fiscal year.

Deputy Mayor Varney requested that a representative from Bridging the Gaps make a presentation to the Finance Committee detailing what their organization does. Councilor Lauterborn stated that much of that information will be included in the Community Development Committee meeting minutes, but there was additional data requested which is forthcoming.

## **7. Adjournment**

Councilor Torr **MOVED** to **ADJOURN** the meeting at 8:03 PM. Councilor Walker seconded the motion. The **MOTION CARRIED** by a unanimous voice vote.

Respectfully Submitted,

Cassie Givara  
Deputy City Clerk