

Finance Committee

Meeting Minutes

Meeting Information

Date: October 11, 2022

Time: 6:00 P.M.

Location: 31 Wakefield Street

Committee members present: Mayor Callaghan, Deputy Mayor Lachapelle, Councilor Beaudoin, Councilor Gray, Councilor Hainey, Councilor Larochelle, and Councilor Hamann.

City staff present: Deputy Finance Director Mark Sullivan. Deputy City Manager Katie Ambrose. Kyle Repucci, Superintendent of Schools. Sarah Harrington, Vice Chair of School Board. Lauren Krans, Director of Recreation and Arena.

Others present: Tom Kaczynski, resident. Ray Barnett, resident.

Agenda & Minutes

1. Call to Order

Mayor Callaghan called the Finance Committee meeting to order at 6:00 PM. All Councilors were present. Mayor Callaghan asked Councilor Beaudoin to lead the Pledge of Allegiance.

2. Acceptance of Minutes: September 13, 2022

Councilor Lachapelle **MOVED** to **ACCEPT** the minutes of the September 13, 2022 Finance Committee meeting. Councilor Beaudoin seconded the motion. The **MOTION CARRIED** by a unanimous voice vote.

3. Public Input

Tom Kaczynski, resident, addressed the Committee regarding agenda item 5.1.3 relating to the Public Works facility office modifications.

Ray Barnett, resident, spoke to the Committee regarding the veteran's tax exemptions as well as the proposed office modifications at the Department of Public Works.

4. Unfinished Business:

4.1.1 Assessing Property Tax Exemptions

Katie Ambrose, Finance Director, directed the Committee to the revised spreadsheet in the packet comparing Rochester to other local communities. She explained that upon review, it had been discovered that some of the numbers in the original document were inverted and these numbers had been corrected. This revision caused Rochester to move up to number two in the rankings.

Director Ambrose said that if further changes to the exemptions/credits were recommended, the Committee needed to be cognizant that the process of qualification for these exemptions occurs in January through the Assessing department. She recommended that any changes be made with adequate time to alert residents who may qualify under the new provisions.

Councilor Beaudoin expressed that this discussion needed more attention and suggested there be a mayoral ad hoc committee formed to review and make recommendations on these exemptions. Mayor Callaghan stated that he was prepared to form an ad hoc committee with Councilor Larochelle as the Chair. He asked Councilor Beaudoin and Councilor Hainey to serve on the committee as well. He agreed that the committee would need to work quickly in order to make recommendations for action to come to full Council prior to the previously mentioned January assessing process. There was a discussion on the timeline, with recommendations coming to the Finance Committee in December for potential Council approval in January.

Councilor Larochelle asked if there would be City staff support provided towards the Committee's work. Director Ambrose stated that there would be staff support to assist with the process and adhere to the tight timeline. Councilor Larochelle inquired about having a City staff member, ideally with a financial background, appointed as a member of the committee. Mayor Callaghan stated that he would discuss this with the City Manager, who would have the authority to appoint staff if needed.

5. New Business-

5.1.1 School Department Capital/Non Capital Reserves Presentation

Kyle Repucci, Rochester Superintendent of Schools, explained that the School Department was coming before the Finance Committee in regards to establishing two separate funds; a facilities apparatus capital reserve fund and an Unanticipated Special Education costs non-capital reserve fund.

Superintendent Repucci stated that, prior to COVID, there were numerous occasions where the School Department needed to freeze their budget due to unanticipated special education costs caused by students with IEPs moving into the community or being placed in the school system by the courts. These placements can greatly affect the school budget resulting in a budget freeze.

Superintendent Repucci reported that such a freeze causes a lack of confidence from staff, who are unsure if their jobs could be at stake. This potentially causes the younger staff to seek alternate employment options. The establishment of an unanticipated special education costs fund would allow the School Department to take immediate action for these students without having to freeze the budget or needing to wait for the approval process to pass through various committees and City Council.

Superintendent Repucci discussed the potential funding sources for these funds; he said that the School Department hoped to utilize a portion of the surplus funds which are normally returned to the City, but also wanted to look into the option of using TIF funds or Waste Management tipping fees. He gave background on the need for the apparatus replacement capital reserve fund and the type of equipment that would be covered, explaining that the intention was to set it up similarly to the Fire Apparatus fund.

Sarah Harrington, Vice Chair of the School Board, reiterated that these student placements were typically unanticipated and caused financial issues due to the supplemental appropriation process through the City often taking up to 3 months for approval. She suggested that a potential solution would be for the School Department to retain 50% of their end-of-year surplus to split between these proposed funds instead of returning the surplus to the City in its entirety.

Councilor Gray expressed concern with the funding mechanism being the utilization of year-end surplus and speculated that it could cause the School Department to not be fiscally responsible in order to retain a larger surplus. He spoke in favor of the method used for the Fire apparatus capital reserve fund, in which a set dollar amount was allocated each year. Superintendent Repucci clarified that the surplus percentage was just an example of a potential solution, but the School Department is open to ideas and further discussion.

Councilor Gray stated that his understanding is that out-of-district students with IEPs coming into the City would have their costs covered for the first year by the community from which they were transferring because “catastrophic aid” does not begin in Rochester until the second year. Superintendent Repucci stated that this not factual; Rochester is responsible for these costs from the day the student begins, including implementation of IEPs and transportation of said students. Councilor Gray asked for information on when this requirement was enacted. Superintendent Repucci stated that he would have this information sent to Councilor Gray.

Councilor Gray recalled that during his time on Council, each time the School had requested a supplemental appropriation for catastrophic aid it had been approved. He felt that this proposal for establishing funds would jeopardize the process already in place. Ms. Harrington confirmed that the Council has always approved these appropriations; however the entire process from request to approval takes several months, and by that time the budget may have potentially been frozen. This approach of establishing the funds would be a long-term planning approach to avoid the need for budget freezes and supplemental appropriation requests. Additionally, she stated that the Rochester School Department maintains a very conservative budget, which doesn’t leave much wiggle room. She clarified that she suggested a percentage of the surplus being retained as opposed

to a dollar amount because the surplus varies from year to year and they are not able to predict how much they may be able to use.

Mayor Callaghan stated that the School Department had not come back to the City to request a supplemental appropriation during the prior year, nor had they needed to freeze the budget. He inquired what had been done differently during the past fiscal year. Superintendent Repucci stated that for the past two years, the district had been receiving federal funds; however, these would not continue. Councilor Gray added that there had been an increase in State aid, which helped. Mayor Callaghan expressed concern that using the surplus for these funds could be perceived as a way to get around the tax cap. Superintendent Repucci likened these funds to an insurance policy; although it is not desired, it is a necessity that is beneficial to have when needed. It would be a long range financial planning tool to assist with specific issues while avoiding affecting the tax base and to provide budget stability moving forward.

Councilor Beaudoin paraphrased RSA 34:1 regarding capital reserve funds and said that the law requires that funds are put aside for a specific purpose and, if a change in purpose were desired, the change would need to be approved by Council. He questioned whether the School Department was able to be that specific in their use of the funds. Superintendent Repucci clarified that the proposed Unanticipated Special Education fund is a non-capital reserve fund. He stated that it would be used solely for federally mandated IEP requirements.

Mayor Callaghan inquired how expenditures from this fund would work. Deputy Finance Director Sullivan stated that he envisioned this working similarly to the newly established Economic Development non-capital reserve fund. He stated that with that particular fund, there had been restrictions written into the policy to require the Economic Development Commission to come before Council for approval of expenditures. He said that the School's non-capital reserve fund could be set up in a similar manner with similar restrictions, depending on the desire of the City. Mayor Callaghan asked what the difference would be between the School Department needing to come before Council to expend money from this proposed fund versus the process of requesting a supplemental appropriation. Deputy Director Sullivan stated that if this fund is established, it might be a quicker process for the School to receive funds and there would be cash already designated and held by the Trustees of the Trust Fund for the purpose in question. Director Ambrose said that much of these questions would be clarified based on how the resolution is drafted and the establishing language for the funds. She clarified that if the School Board is designated as the expending agent for the fund, they would not come before Council for approval but rather they would appear before the School Board for these expenditures. She added that part of the longer timeline for supplemental appropriations, as referenced by Ms. Harrington, is the requirement for a public hearing.

Councilor Beaudoin **MOVED** that this item be kept in committee. Councilor Gray seconded the motion. He stated that there needed to be more detailed language drafted explaining the funding source and how expenditures would be handled. Superintendent Repucci requested that the committee develop a "to do" list, including funding mechanism for these funds as well as amounts to be allocated. Councilor Lachapelle stated that it would be helpful for the School Department to

provide a clearer picture of what they are looking for regarding the apparatus capital reserve fund and how much money they anticipate needing. Director Ambrose stated that, similar to the City's other equipment capital reserve funds, it would be helpful to have a replacement schedule. Councilor Hainey asked for a draft resolution for each fund. Superintendent Repucci stated they had draft language for the special education fund and they envisioned the apparatus fund being modeled on the City's Fire Apparatus fund. The **MOTION CARRIED** by a unanimous voice vote.

5.1.2 Recreation Department Lilac Family Fun Festival Funding 2023

Lauren Krans, Director of Recreation and Arena, explained that the department has already begun the planning process for the next year's Lilac Family Fun Festival. She stated that she was coming to the Committee for guidance on not only the level of financial commitment they were looking to contribute, but also to seek guidance on how this funding should be requested annually moving forward. Director Krans outlined the three options of funding levels and detailed what would be included with each option. She clarified that regardless of the option chosen, there are increased costs expected with both the fireworks and the amusements vendor who supplied the free kids' rides. She addressed some of the feedback from patrons of the event last year, such as long lines and waits for the rides and food vendors, and fireworks being too low and the duration of the show not being long enough. An increase in the budget for the event would allow the purchase of additional, more varied fireworks and would also allow the rental of more rides.

Councilor Lachapelle asked if the \$43,000 for option 3 was above and beyond the \$25,000 which the City had already supported. Director Krans clarified that the fireworks were funded with the \$9,000 remainder of a special event non-lapsing fund and an additional \$1,000 from the Recreation O&M budget. However; the event ended up expanding into the Lilac Family Fun Festival as opposed to just the fireworks display, at which point there was a request for supplemental appropriation from Council for an additional \$10,000. Councilor Lachapelle recalled that Council had already set up a special event fund for such activities in the past. Deputy Director Sullivan confirmed that there had been a multi-year fund previously established. He explained the issues encountered with this type of fund; the planning of any summer events starts early and crosses fiscal years. Vendors also may require advanced deposits, which can lead to supplemental appropriation requests. He explained how committing this money ahead of time would allow the Recreation Department better ability to budget and plan. He detailed how the process would work and the restrictions that could be enacted to ensure some Council control over the funding.

Ms. Krans requested that, if approved, this funding be inclusive of the cost of the entire event in order to make the budgeting more straightforward and to avoid taking funding from the operating budget, which may affect other department projects and events. She explained that with the increased funding allocation for option 3, she hoped to bring in more structured entertainment options such as magicians to keep families with young children and various age groups engaged and remaining at the event longer. She clarified that any unexpended funds would be rolled over into the next year's budget. Deputy Director Sullivan said that the money would be budgeted for in the current year with a resolution from unassigned fund balance with the funds designated for the Recreation special event fund.

Mayor Callaghan inquired if there had been any revenue generated from the event. Director Krans indicated that there was a \$40 application fee charged to vendors, resulting in approximately \$1200 in revenue.

Councilor Gray stated that, if this \$43,000 were approved, he would expect to see an additional \$43,000 included in the budget for the following year's event so the department would not need to come back to Council for approval. Deputy Finance Director Sullivan confirmed that the intention is to have the request presented each year through the budget cycle.

Councilor Beaudoin inquired about an issue that had been experienced with some vendors related to the requirement for liability insurance. Director Krans acknowledged this practice, which had been based upon how other communities handled their events. She stated that there had been revisions to the requirements based upon the type of activity the vendor would be providing.

Councilor Lachapelle **MOVED** to recommend option C for \$43,000 to the full Council. Councilor Hamann seconded the motion. The **MOTION CARRIED** by 5 to 2 roll call vote with Councilors Hamann, Lachapelle, Hailey, Gray, and Mayor Callaghan voting in favor and Councilors Beaudoin and Larochelle voting opposed.

5.1.3 Public Works Facility – Office Modifications

Finance Director Ambrose explained that these modifications are related to the two new deputy positions at the Department of Public Works and the need for office space for these positions. The requested \$65,000 includes not only the framing, flooring, and construction of the office spaces themselves, but also the furnishings and the HVAC modifications into the existing system. Director Ambrose stated that the original DPW facility project has a surplus of \$560,000, which will be coming to Council for deauthorization in the near future. She summarized an issue being experienced with the sidewalks at the new facility, which is currently being reviewed with the contractor in order to come to a conclusion as well as a cost sharing agreement to rectify the issue. The deauthorization will not come forward until the City cost on this sidewalk issue is determined.

Director Ambrose stated that due to the timeline involved for posting to hire these new positions along with the availability of the contractor for construction of the office spaces, the Department of Public Works is requesting that this request go through sooner rather than waiting for the aforementioned deauthorization on the project. She explained that the \$65,000 could be deauthorized from bonding with the funding source changed to cash, reducing the surplus by this amount. Alternately, the Committee could give a consensus to move forward with the project now without going to full Council, with the understanding that the deauthorization is occurring in the near future

Councilor Lachapelle questioned why, when this new facility was built, the impending need for these offices was not anticipated. Councilor Gray **MOVED** to send this discussion to the Public Works Committee for further review of the needs and potential alternatives for the proposed project. He

stated that until there was more information and detail provided, he could not support this proposal. Councilor Lachapelle seconded the motion. The **MOTION CARRIED** by a unanimous voice vote.

Reports from Finance & Administration

5.2.1 Monthly Financial Report Summary-September 30, 2022

Deputy Director Sullivan reported that revenues continue to be strong and collected to budget, with some exceeding budget at this point, 25% into the fiscal year. He stated that the City has received its first quarter Waste Management Host fee payment, which is slightly lower than is normally received. Expenses are trending to budget. He referenced the addition of the police and fire department overtime budget line item, which are both exceeding budget.

Deputy Director Sullivan pointed out that he had removed the line in the report relating to the unassigned fund balance because it had caused some confusion; it was not a summary of the entire fund balance but rather an illustration of additional money which had been committed from the fund in the current fiscal year. He clarified that the Unassigned Fund Balance activity report would remain in the monthly reports.

Councilor Hamann inquired if it would potentially save the City money in the long run if there were additional firefighters hired instead of continuously paying overtime. Director Ambrose stated that there would need to be analytics reviewed to determine if this would address the issue. She suggested that this could be more of a budgeting matter and the Department may need to consider budgeting to the actual expenditures during the next budget cycle. She acknowledged that additional staffing could be considered, but it may not alleviate the issue. There was further discussion in committee regarding how both Fire and Police report their monthly overtime and how these numbers will be reported moving forward.

5.2.2 FY23 Use of General Fund Unassigned Fund Balance-Sept-30-22

Deputy Director Sullivan explained that this is a summary of the estimated amount of where the account will end for FY22, taking into consideration the significant portion of the account on the City side in FY22. He summarized the data points contained within the report, which will be covered monthly.

6. Other

Director Ambrose announced that Darcy Freer, Deputy Assessor, will be serving as the interim Chief Assessor while the position is being required.

Director Ambrose reported that the auditors had recently completed the FY21 single audit (which had a deadline extension until September 30, 2022). The single audit covers federal expenditures and is separate from the City's annual audited financial statements. She stated that

this audit typically tests 20% of the City's federal expenditures due to the City's low risk status. In this particular audit, three school programs were tested and there was a finding relative to Title I in which a certification was not on file for an employee. Following this finding, the School took corrective action and demonstrated that they had been in compliance prior to this one incident and had in compliance following the incident. However, as a result, this incident was deemed a "significant deficiency," moving the City out of the low risk category for single audits. Moving forward, the City will need to have 40% of federal expenditures audited. This will necessitate additional time for the auditors and, in turn, increased cost to the City. She stated that there is a potential that this finding will affect the City's bond rating, although that is uncertain at this time.

Councilors Gray reported that he had received the court's decision on a redistricting audit regarding State Senate and Executive Council. He stated that much of the information cited in the decision is relevant to the current lawsuit on redistricting with which Rochester is involved. He stated that he had forwarded this information to the City Manager and City Attorney for review before more City funds are expended toward this current redistricting audit.

7. Adjournment

Mayor Callaghan **ADJOURNED** the Finance Committee meeting at 7:01 PM.

Respectfully Submitted,

Cassie Givara
Deputy City Clerk